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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management |
| **Course Title: Emerging Economic Environment, (Course Code:40402)**  **End-Term Examination, Term - II (January 2023)** | |
| **Time Duration: 2 Hours Total Marks: 40** | |

***General Instructions*:**

1. *Answer the questions as directed. The break-up of the marks is given wherever necessary.*
2. *Marks against each question are indicated to its right.*
3. *Answers should be brief and to the point.*
4. *Do not write on the question paper except your roll number.*
5. *Non-scientific calculators are allowed.*

**SECTION - A**

**Read the following article:**

**The State of the Indian Economy: 2022 Roundup**

*Excerpts from The Economic Times dated January 7, 2023*

On December 6, 2022, the World Bank revised its GDP growth outlook for India for 2022-23 from 6.5% to 6.9%, on the back of the economy’s strong performance in Q2.

**2022 – The Year in Review**

There was no dearth of headwinds throughout the year, which impacted India’s path to economic recovery. The year began with the threat of the Omicron variant of the coronavirus. Fortunately, the threat subsided fairly quickly, without impacting the economy in any significant way. The only problem was that this headwind was replaced by Russia’s invasion of Ukraine in mid-February, leading to further disruptions in the global supply chain.

The next development to impact the economy was the decision of several major central banks, especially the US Federal Reserve, to reverse their loose monetary policy stance. The ripple effect of the policy-tightening measures was felt worldwide. The RBI wasn’t too far behind in tightening its stance either, with the first interest rate hike being announced in May.

**The Indian GDP**

In the first half of the current financial year, India’s GDP registered a growth of 9.7%, compared with 13.7% a year ago. Gross Value Added (GVA) also rose, albeit below the level seen in the same period last year, at 9% versus the 12.8% growth a year ago. GDP growth accelerated in the June-end quarter although below the RBI's expectation, rising to 13.5%. This growth was driven by an increase in gross fixed capital formation and private consumption spending.

Some normalisation was seen in the September-end quarter, with GDP growth slowing to 6.3%, driven by the contraction in the mining and manufacturing sectors, along with high inflation, declining exports and rising input prices.

**Inflation**  
Retail inflation, as reflected by the Consumer Price Index, remained above the RBI’s upper tolerability level of 6% for 10 consecutive months to November, when it eased slightly to 5.88%. Retail inflation recorded an eight-year high in April, with rural inflation rising to 8.4% and urban inflation being recorded at 7.1%.

This surge was attributed by analysts to the sharp rise in food inflation, which recorded a 17-month high of 8.4% in April. This rise was driven to a large extent by the worldwide spike in crude oil prices, which impacted not just food and commodity prices but also communication and transport costs.  
  
**Interest Rate Hikes**

Although the Monetary Policy Committee (MPC) of the RBI left the rate unchanged at 4% in April, it voted unanimously on increasing the repo rate during its off-cycle meeting in May. As a result, the repo rate rose 40 basis points to 4.40%. The MPC has raised rates at each of its three subsequent meetings this year, hiking the repo rate by 50 basis points each time, till the rate peaked at 5.9% in September.

It was only recently in December that the RBI decided to moderate its rate hikes, raising the repo rate by 35 basis points to 6.25%.

**Looking Ahead at 2023**

The new year brings hopes for continued momentum in India’s growth story, backed by the sustained strength in domestic demand, according to a recent report by Morgan Stanley. In addition, the OECD is optimistic that India could become the second-fastest growing economy among the G20 nations in FY2022-23, after Saudi Arabia. This is expected despite a potential slowdown in global demand, inflationary pressures and continued monetary policy tightening.

Credit Suisse’s Global Equities Strategy team has also upgraded India from “Underweight” to “Benchmark” for 2023, given the nation’s underlying economic strength. With respect to investments, sectors that are projected to perform the best include financial services, banking, insurance, capital goods, housing, defence, infrastructure and the railways.

**Q.1** The article mentions of impact of Russia-Ukraine War on Indian Economy. Comment how the war has affected the global economies with special reference to India. Amidst such geo-political turmoil, India chose to stay neutral. Critically examine India’s position. **[5 Marks]**

**Q.2** US Fed Reserve has been adopting a tightening monetary policy as per the article. What does it imply? Would this affect Indian Economy? Comment with respect to FPI inflows and exchange rate. **[5 Marks]**

**Q.3** RBI also had been witnessed adopting a contractionary monetary policy from the last few revisions. What changes have you witnessed in the last few policy revisions? What were the concerns of RBI that it had to adopt such decisions? Comment on the possible impact of such moves on the growth of the country, inflation, interest rates. **[5 Marks]**

**Q.4** Do food prices affect the core inflation or retail inflation? Which factors have contributed to a rising inflation in the country recently? Where would you classify them: demand push or cost push? Cite your opinion on role of inflation for any economy. **[5 marks]**

**Q.5** The article has a mention of good expectations in terms of growth from Indian Economy owing to sustained domestic demand. Comment what are the components of aggregate demand. Is India classified as developed/ emerging/frontier economy. Give suitable justifications to your answers.

**[5 Marks]**

**SECTION – B**

**Q.6** Analyze the following situations.

1. The government is planning to increase the capital expenditures in the upcoming budget and may also focus on reducing the revenue expenditures.
2. Impact on AD-AS equilibrium if government expenditures are rising.
3. Impact on “trade balance”; “goods and services balance”; and “current account balance” if merchandise imports are more than merchandise exports and if services exports are more than services imports.

**[2 + 2 + 3 = 7 Marks]**

**Q.7** An economy is characterized by the following equations-

Consumption Function **C = 100 + 0.75Yd;** Investment **I = Rs. 250 Crores**; Tax **T = Rs. 200 Crores**; Government Expenditure **G = Rs. 250 Crores**; Exports **X = Rs. 300 Crores**; **Imports** **M = 20 + 0.15Y**

**Estimate:**

1. National income at equilibrium
2. Trade deficit/surplus
3. Suppose the government aims to increase the GDP to full employment level of Rs. 2025 Crores, then how much new investments should be attracted in the economy?

**[5 + 1 + 2 = 8 Marks]**

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