**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**SECOND TRIMESTER (Batch 2019-21)**

**END TERM EXAMINATION, DECEMBER-2019**

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| Course Name | **Business and Economic Environment** | Course Code | **ECO201** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

* Attempt all questions in the order they appear in the question paper.
* Attempt all parts of a question together.
* Calculators are allowed.

**Question 1 (A).** An economy is characterized by the following equations:

Consumption Function = 60 +0.75Yd;

Investment = 150 Crores; Tax = 30 Crores

Government Expenditure = 60 Crores

Exports = 210 Crores, Imports = 60 Crores

(i) Solve for the equilibrium level of National income.

(ii) Find out the value of budget surplus/deficit.

(iii) Write down the savings function and calculate the value of aggregate savings from the function.

(iv) If the government wants to increase the income level by 10000 crores, then by how much should the investment expenditure be increased? What is the new value of Investment expenditure?

(v) Estimate the value of tax multiplier. **[2+1+1+2+1=7 Marks]**

1. Using ‘Aggregate Demand (AD) – Aggregate Supply (AS)’ framework, examine the

resulting impact of each of the following circumstances on equilibrium aggregate output/income and equilibrium price level in the economy:

1. Fearing the slowdown, the Government increases its expenditure and reduces corporate taxes.
2. Households at large become more pessimistic about their future income. Further even firms have become more pessimistic about the future profitability of investment spending.
3. Government increases the amount of production subsidies to firms.

**[1+1+1 =3 Marks]**

**Question 2** Read the paragraph from a recent news article given below:

**Growth-inflation dynamics to guide MPC’s policy move in Feb**

Excerpts: Livemint dated December 20, 2019:

The Reserve Bank of India (RBI) expects uncertainties in inflation outlook over the next few months, while food inflation eases and remains transitory, according to the December monetary policy, which was released on Thursday.

All the members of RBI’s monetary policy committee (MPC) agreed that inflationary pressures caused largely by a spike in vegetable prices are expected to reverse by the fourth quarter of this fiscal year. However, it is still not known whether the spike in pulses and milk prices could spill over to non-food items.

In its December policy, the monetary policy committee had revised the inflation projection for the second half of the current fiscal year to 5.1-4.7% and 4-3.8% for first half of 2020-21. However, the recent reading showed that retail inflation surged to 5.54% in November with food price inflation, measured by the Consumer Food Price Index, rising to 10% from 7.89% in October. Retail inflation could touch 6% in December.

The recent increase in telecom charges, along with non-vegetable food items, could have an impact on the inflation trajectory, according to Reserve Bank governor Shaktikanta Das.

“The surge in food inflation in the last three months, driven up by a spike in onion and other vegetable prices, could be transitory. It is likely to reverse gradually as the late kharif output comes to the market. In view of this, even as the current food price spike driven by vegetables can be looked through, there is a need for greater clarity as to how the overall food inflation path is going to evolve, as there is some uncertainty about the outlook of prices of certain non-vegetable food items such as cereals, pulses, milk and sugar," said Das.

Ravindra Dholakia, the most dovish member of the committee, surprised the market with his decision to vote for a pause on policy rates. Dholakia noted that while there was space for more rate cuts, it was prudent to wait for more clarity on growth-inflation dynamics before taking a decision.

In its December policy statement, the monetary policy committee had said it will wait for further government measures in the forthcoming budget, and take a note of the pass-through of future policy actions before taking a decision to cut rates.

**A.** Based on the paragraph, which kind of monetary policy is RBI following in order to revive demand and investment.

**B.** Examine two possible general and two possible specific tools of monetary policy, which may help in achieving the desired objectives.

**C.** The monetary policy committee has signaled to wait for government measures in the forthcoming budget. According to you, what role fiscal policy could play in stimulating growth in the economy.

**D.** Explain the difference between food inflation and non-food inflation in CPI. Also comment upon possible condition of core inflation evident from article.

**E.** Illustrate the difference between capital and revenue expenditures made by government explaining the possible implications of both. **[2 + 4 + 3 + 3 + 3 = 15 Marks]**

**Question 3 A.** Here is some balance of payments data (without pluses and minuses, in million USD)

Merchandise exports =100; Merchandise imports = 125; Tourism exports = 90;

Insurance imports = 80; Income receipts from abroad (profit of multinationals) = 110;

Income payments (interest payments) to foreigners= 150; Increase in home country´s ownership of assets abroad =160; Increase in foreign ownership of assets in home countries = 200

Assuming that unilateral transfers equal zero, find:

1. Merchandise trade balance
2. Net exports (services and income)
3. The current account balance
4. The capital and financial account balance
5. Official Reserve Assets

**[2 + 2+ 2 + 2 + 1 = 9 Marks]**

**B.** Explain the impact on Dollar/Rupee exchange rate due to following factors:

(i) Price levels in India fall as compared to US

(ii) There is an increased demand of US technological products in India

(iii) Federal Reserve US has reduced the interest rates.

(iv) Global Crude oil prices rise

(v) FDI inflows fall owing to poor economic forecasts of about India

(vi) India has imposed higher duties on imports from US

**[6 Marks]**

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