**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.

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

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

1. In an economy, there are only 3 goods: Pizza, Movie Shows, and Cold drinks. The following table shows the prices and quantities produced of these goods in 1980, 1990, and 1991:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 1980 | | 1990 | | 1991 | |
|  | P(in $) | Q | P(in $) | Q | P(in $) | Q |
| Pizza | 1.00 | 500 | 1.00 | 600 | 1.05 | 590 |
| Movie shows | 5.00 | 300 | 10.00 | 200 | 10.50 | 210 |
| Cold Drinks | 0.70 | 300 | 0.80 | 400 | 0.75 | 420 |

a) A "market bundle" for a typical family is deemed to be 5 Pizzas, 3 movie shows, and 3 cold drinks. Compute the consumer price index (CPI) for each of the three years, using 1980 as the base year.

b) What was the rate of inflation from 1990 to 1991, using the CPI you calculated in (a)?

c) Now compute the CPI for each of the three years, using 1990 as the base year instead of 1980 but using the same "market bundle."

d) Now suppose that a new market bundle is defined; the "market bundle" is now 6 pizzas, 2 movie shows, and 4 cold drinks. Compute the CPI for the three years, using this "market bundle" and using 1980 as the base year.

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

1. Read the paragraph from a recent news article given below:

With retail inflation firming up and wholesale inflation easing, economists said RBI policymakers are facing a complicated situation as they consider the course of monetary policy, especially when India’s growth is slowing. The central bank has been on a policy rate cut spree, having already cut the repo rate five times in 2019, to help revive demand and investment. But high food prices may reduce its room for further easing up. The gap between CPI and WPI will remain as long as commodity prices are weak and the central bank may have to revise its retail inflation forecast, economists said.

* Based on the paragraph, which kind of monetary policy is RBI following in order to revive demand and investment.
* What are the salient features of this type of monetary policy?
* Explain the objectives of this type of monetary policy briefly. **[1+3+3 = 7 Marks]**

1. **Here are some balance of payments data (without pluses and minuses):**

Merchandise exports =100

Merchandise imports = 125

Tourism exports = 90

Insurance imports = 80

Income receipts from abroad (profit – 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 transfer equal zero, find the merchandise trade balance, net exports (services and income), the current account balance, the capital and financial account balance and the Official Reserve Assets. **[1+1+2+2+1= 7 Marks]**

1. Explain graphically by taking sample scenarios, two major determinants of Exchange Rate Determination in the long term. **[4+4=8 Marks]**

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