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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**Post Graduate Diploma in Management |
| **Course Title: Macroeconomics and Economic Environment of Business (Course Code: 40401)****End-Term Examination, Term - II (January, 2025)**  |
|  **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. *Simple calculators and a rough sheet are allowed during the examination.*
3. *Answer all the questions of a ‘Section/Question’ in one place in continuation.*
4. *Answers should be brief and to the point.*

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**Q:1**

**A]** Suppose an economy produces only three products/services: A, B, and C. The details of the same for the years 2014 and 2024 are given below:

|  |  |  |
| --- | --- | --- |
|  | **2014** | **2024** |
|  | **Quantity** | **Price (INR)** | **Quantity** | **Price (INR)** |
| A | 100 | 10 | 150 | 18 |
| B | 200 | 40 | 250 | 60 |
| C | 15 | 50 | 30 | 80 |

1. Compute the Nominal and Real GDP of the 2 years, considering 2014 as the base year.
2. Use the GDP deflator to compute the inflation rate from 2014 to 2024. (Base year: 2014)

**B]** The consumption function in an economy is given as:
**C = 40 + 0.8Y**; **I = 50; G = 100**
where, C is consumption, I is private investment, G is government expenditure, and Y is the national income.

1. Compute the equilibrium level of output (Y) in the economy using this information.
2. Also, if the target is to increase the national income by 100, then how much additional investment needs to be attracted to the country?

**[CLO1: 4 + 1 + 4 + 1 = 10 Marks]**

**Q:2**

**A]** An economy is experiencing an annual inflation rate of 6%, significantly higher than its target rate of 3%. The rising inflation has led to an increase in the cost of living, eroding consumer purchasing power. Businesses pass higher production costs to customers, causing demand for non-essential goods to decline. The central bank has responded by increasing interest rates to reduce inflation.

*Analyze the short-term and long-term economic impacts of high inflation on:*

1. *Consumers*
2. *Businesses*
3. *Economic growth*

**B]** Consider the following hypothetical case:

**"TechVista Industries (2023-2025)"**

TechVista Industries, a multinational technology corporation, operates across three major markets: consumer electronics, enterprise software, and cloud services. Consider the following market conditions and company developments:

**Market Conditions (2023)**

- Interest rates: 3.5%

- GDP Growth: 4.2%

- Consumer Confidence Index: 110

- Manufacturing PMI: 53.5

- Unemployment Rate: 4.8%

**Conditions: Year 2024**

- Interest rates increased to 6.8%

- GDP Growth declined to 1.8%

- Consumer Confidence Index dropped to 85

- Manufacturing PMI fell to 48.2

- Unemployment Rate rose to 6.5%

- TechVista's inventory levels increased by 45%

- Enterprise software division reported 30% decline in new contracts

**Conditions: Early 2025**

- Company announced a 15% workforce reduction

- Closed 25% of retail outlets

- Reduced R&D spending by 40%

- Competitors showing similar patterns

- Industry-wide investment in new technology dropped by 50%

*Using business cycle indicators from the scenario, analyze which phase(s) of the business cycle the economy is experiencing from 2023 to early 2025. Support your analysis with specific evidence from the case. Evaluate if TechVista's business decisions could likely amplify or dampen the cycle.*

**[CLO2: 5 + 5 = 10 Marks]**

**Q:3** India's current account deficit is expected to remain at approximately 1 percent of GDP for fiscal 2025, up from 0.7 percent last year, according to CRISIL.

Also, the Indian rupee has shown significant volatility against major currencies. Analyze the following scenario and answer the questions:

In the past year, India has experienced:

1. Increased crude oil prices in international markets
2. Rising technology services, engineering goods, and electrical goods exports
3. Growing foreign portfolio investment outflows
4. Substantial increase in remittances from NRIs
5. Increase in FDI

**A]** Critically examine how these factors have impacted India's Balance of Payments position. Support your answer with economic reasoning for each factor. Also, mention whether each transaction is a current/capital account entry.

**B]** Evaluate the interrelationship between these developments and the Indian rupee's exchange rate movements with appropriate justifications. **[CLO3: 5 + 5 = 10 Marks]**

**Q:4**

**A] RBI MPC Meeting 2024 Highlights: RBI cuts CRR to 4%, repo rate unchanged at 6.5%**

***Excerpts from The Hindu Business Line Dated: December 6, 2024***

Notwithstanding the second quarter (Q2FY25) GDP growth slowing to a two-year low, the rate-setting monetary policy committee (MPC) is likely to stay put on the repo rate as retail inflation rose beyond its 6% tolerance level in October. The six-member MPC, is seen giving primacy to bringing down retail inflation to 4%. The MPC members are expected to hold their ground despite recent observations of a couple of Union cabinet ministers and the chief economic adviser about the need for softer interest rates. At the last MPC meeting, the members had decided by a majority to keep the policy repo rate unchanged at 6.5%. Further, they decided unanimously to change the stance to ‘neutral’ and remain unambiguously focused on a durable alignment of inflation with the target while supporting growth. There may be no urgency to cut the repo rate to support growth, which could be gauged from observations in the RBI’s November monthly bulletin.

*What is the dilemma before MPC while deciding on the repo rates? Examine how high repo rates will/ are affecting the economy. Analyze the likely outcome of reducing CRR on the economy.*

**B] Consider the following statement:**

In the Union Budget for fiscal year 2024-25, the government announced spending ₹15,000 crores on developing green hydrogen infrastructure while simultaneously increasing civil servant salaries and allowances by ₹9,000 crores. Economic analysts have pointed out that the first allocation reflects the government's focus on future energy security and would generate returns over multiple decades, while the second, though crucial for administrative efficiency, represents a recurring cost to the exchequer."

*Based on the above statement, analyze and differentiate between the two types of government expenditure mentioned. Support your answer with their characteristics and economic implications.* **[CLO3: 5 + 5 = 10 Marks]**