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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

POST GRADUATE DIPLOMA IN MANAGEMENT

SECOND TRIMESTER (Batch 2016-18)

END TERM EXAMINATIONS

Course Name	Macroeconomics & Business Environment (MEBE)	Course Code	ECO201
Max. Time	2 hours	Max. Marks	40

Instructions: Attempt All Questions

Q. 1 An economy is characterized by the following equations- (1+1+1+1+1=5 Marks)

Consumption Function = $50 + 0.80Y_d$;

Investment = 100 Crores

Tax = 20 Crores

Government Expenditure = 50 Crores

a) Find out the equilibrium level of income.
b) Calculate the budget deficit/ surplus in government account?
c) On the basis of calculation in part (a), estimate the value of aggregate consumption
d) Find the corresponding level of aggregate savings.
e) If the government wants to increase the income level by Rupees 200 billion (20000 crores) then by how much should the autonomous investment be increased?

Q. 2 Calculate: (2.5+2.5=5 Marks)

a) Gross Value Added at Basic prices
b) Gross Domestic Product at MP

S. No.	Items	Rs. in Lakhs
1.	Wages	40,000
2.	Rent	10,100
3.	Interest	5,500
4.	Profit	8,500
5.	Mixed Income	4,700
6.	Consumption of Fixed Capital	2,200
7.	Production Tax	1,100
8.	Production Subsidy	950
9.	Product Tax	800
10.	Product subsidy	500

Q. 3 If the required reserve ratio is 10% and the bank has a deposit of Rs.10,000; how much can this bank lend? Taking these values, explain the process of credit creation. (5 Marks)

Q. 4 Read the following news and answer the questions that follow: (5+5+5=15 Marks)

RBI's monetary policy surprises but Governor Urjit Patel does not. (Source: Times of India, December 7, 2016)

The second meeting of the Monetary Policy Committee (MPC) of Reserve Bank of India on 7th December, 2016 may have caught most analysts' off-guard. Most surveys of economists ahead of the monetary policy announcement showed that an overwhelming number expected the central bank to lower policy rate. Economic growth prospects were supposed to have taken a blow on account of Narendra Modi government's currency swap exercise. Inflation, however, did not get flagged as a significant challenge.

MPC unanimously decided to maintain status quo on policy rate. What was perhaps surprising was the emphasis placed on inflation in the statement which accompanied the decision. The Reserve Bank of India on Wednesday announced that the repo rate would remain unchanged at 6.25 per cent. Consequently, the reverse repo rate under the LAF remains unchanged at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. MPC appears anxious about a resurgence, perhaps, of inflationary pressure. October's relatively benign reading of retail inflation at 4.2% (a 14-month low) appears to mask the extent of the danger.

According to MPC, core inflation is sticky and there is momentum building up across-the-board. Even on the question of food inflation, MPC conveys the impression of being anxious. Another factor which could impart upward pressure on prices is the exchange rate of the rupee. Financial market volatility on account of global developments could impart volatility to the exchange rate and thereby feed into inflation, feels MPC.

When it comes to economic growth, MPC appears confident. For sure, the gross value added for 2016-17 has been lowered by half-a-percentage point to 7.1%. But MPC conveys the impression that it expects the impact of currency swap on economic growth to be limited particularly through the channel of adverse wealth effect. This prioritization of risks, perhaps, has caught most analysts of monetary policy off-guard. Industry body FICCI was predictably disappointed with MPC's decision to maintain status quo on interest rates.

a) From the above piece of information explain how price stability is the prime objective for the central bank of our country.
b) Elaborate the working mechanism of any two quantitative instruments of monetary policy to control Inflationary situations in the economy.
c) Discuss the difference between Demand-Pull and Cost-Push inflation.

Q.5 Answer the questions that follow from the data presented below for the Indian economy.(5+5=10 Marks)

GOI's Fiscal Balances			Rs. Billion
	2014-15 (Actual)	2015-16 (Revised estimates)	2016-17 (Budgeted Estimates)
a) Revenue Receipts:	11014.7	12060.8	13770.2
Tax revenues	9036.2	9475.1	10541.0
Non tax revenues	1978.2	2585.8	3229.2
b) Revenue expenditure	14669.9	15,476.7	17310.4
c) Capital receipts	514.8	442.2	671.3
d) Capital Expenditure	1966.8	2377.2	2470.2

Source: GOI budget Documents, CGA; ICRA research

a) Differentiate between Fiscal Deficit and Revenue deficit of the government. Calculate them for three years given in the table (2014-15, 2015-16, and 2016-17 with actual, revised and budgeted estimates). Present the three main items constituting Revenue expenditure of the government.
b) What do you think would be the likely impact of demonetization on the fiscal position of the government? Throw some light on the current movement expected (in response to current scenario due to monetization) in the forthcoming Budget 2017 of the government.

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