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SECOND TRIMESTER (Batch 2016-18)
END TERM EXAMINATIONS

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

Instructions: Attempt All Questions

Q. 1 Suppose the relevant functions for an economy are as follows-
Consumption = 100+ 0.75Y
Investment = 250 – 5r
Money supply = 280
Demand for money = 0.25Y- 2r
Where, 'Y' represents income and 'r' represents interest rates.

a) Find the equation of IS curve.
b) Find the equation of LM curve.
c) Find the equilibrium level of interest rate and income
d) Investment increases by 50 units, find equation for IS and LM
e) Elaborate on the implication on commodity and money market with the equations obtained in part (d)? (2 *5 =10 Marks)

Q. 2 Mr. Saini deposited a sum of Rs. 5000 (cash) in his bank account.
a) Elaborate the process and amount of additional money supply created by the banking system on the basis of this primary deposit.
b) Discuss the business implication of additional money supply created by the banking system. [Assume CRR=5% and SLR=20%] (5+5=10 Marks)

Q. 3 Fluctuations in the level of real GDP manifest in the economy in the form of phases of expansion, slow down and recession.
a) What are the characteristics of these phases of business cycles?
b) What macroeconomic policy measures would you suggest to address the recessionary phase? (5+5=10 Marks)

Q.4 Read the case given below and answer the questions that follow:

Fiscal and Monetary Policy Interaction

Monetary and fiscal policies are two macroeconomic stabilisation tools. However, these two policies have often been pursued in different directions. Monetary policy is often pursued to achieve the objective of low inflation to stabilise the economy from output and price shocks. On the other hand, fiscal policy is often biased towards high growth and employment even at the cost of higher inflation. For achieving an optimal mix of macroeconomic objectives of growth and price stability, it is necessary that the two policies complement each other. However, the form of complementarities will vary according to the stage of development of the country's financial markets and institutions.

With increasing independence of central bank in the conduct of monetary policy from fiscal dominance, there has been a renewed interest in the issue of monetary and fiscal policy coordination. Furthermore, the recent global financial crisis has once again demonstrated the importance of coordinated response of monetary and fiscal policies.

In the context of developing economies, it is often viewed that there is complete fiscal dominance and the central bank is subservient to the fiscal authority. Therefore, it is argued that the issue of coordination may not arise since the very concept of coordination arises only when the two institutions are independent. However, it is argued that actual execution of the two policies could significantly differ from what could be expected from the institutional arrangements. Furthermore, irrespective of the dependence/independence of the two policies, there will be interaction between these two policies. The nature of the interaction, however, will be conditioned by the institutional framework. The institutional arrangements have been changing in many developing countries as they are moving towards making central banks more independent, implying time varying behaviour of the interaction between the two policies, which has important implications for the objectives of macroeconomic stabilisation. Thus, from the macroeconomic policy point of view, it is important to empirically verify the nature of the interaction.

a) Do you think that proper coordination between fiscal and monetary policy is necessary for macroeconomic stabilization? Why or why not?
b) What fiscal and monetary policy changes are required to fight the situation of high inflation?

(5+5= 10 Marks)