JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M) / PGDM (SM)
SECOND TRIMESTER (Batch 2021-23)
END-TERM EXAMINATIONS, JANUARY 2022
SET I

Course Name	Emerging Economic Environment	Course Code	ECO20402
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS:

- All questions are compulsory.
- Marks are indicated against each question.
- Length of the paper is 4 pages.

Q.1. Read the following excerpts and answer.

India Inc sees investment boom, lines up capex plans (Excerpt from ET 3 Jan, 2022)
93 per cent of business leaders surveyed say strong post-Covid growth, manufacturing sops, emerging opportunities and low interest rates to boost investments. An overwhelming 93 per cent of CEOs, business leaders, and startup entrepreneurs polled in an ET survey said India is on the cusp of an investment boom, helped by strong post-pandemic economic growth, government incentives for manufacturing, emerging business opportunities and low interest rates.

A higher 94 per cent aim to put their money where their mouth is and undertake capital expenditure over the three years starting 2022. More than three-fourths of the respondents see revenue growth of more than 10 per cent in FY23, confirming expectations of a strong recovery. Nearly half the respondents see a strong recovery in their sectors and high-capacity utilisations, prerequisites for investment recovery.

"All signals are pointing towards recovery and a good growth phase in the Indian economy," said Saugata Gupta, managing director and CEO, Marico. The poll includes responses from 56 CEOs across the manufacturing, services, and infrastructure sectors. The Omicron variant remains the biggest threat to the economic recovery, they said.

(a) Explain the term and components of 'Gross Fixed Capital Formation' for the economy. List the drivers which are currently leading 'investment lead recovery' of Indian economy as per the information given in the excerpt above. **(5Marks)**

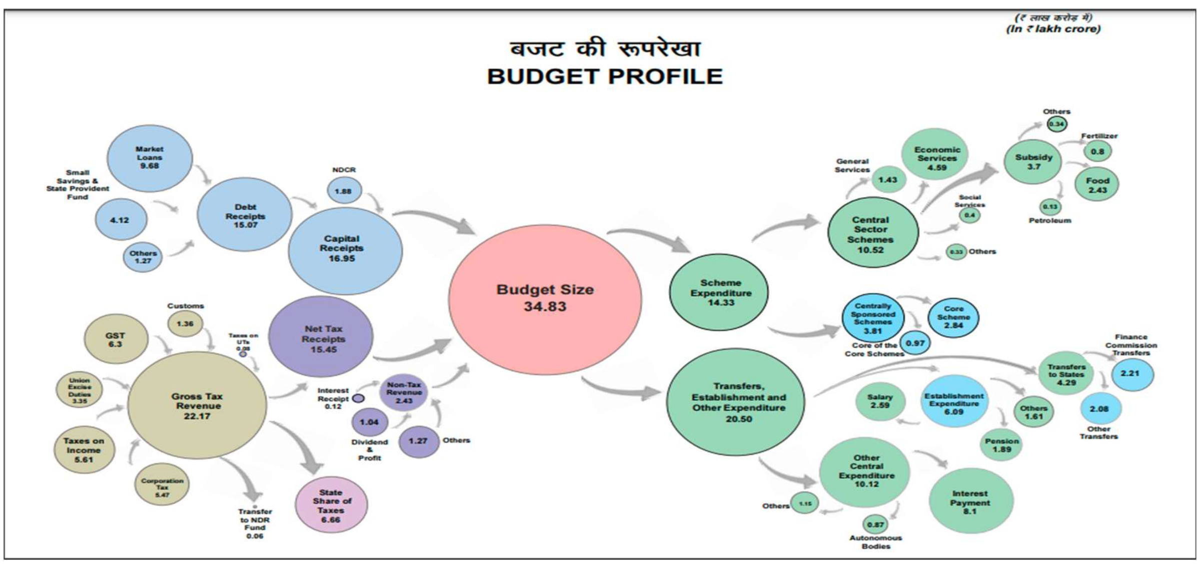
(b) What are the policy options in front of Indian government which can boost investment based recovery. Link them to various concept of 'multipliers' which can trigger the economic recovery of Indian economy? **(5Marks)**

Q.2. Refer the following and answer the questions that follow.

Expenditure of major items (selected) (Rs. Crore)

Items	2019-20 Actuals	2020-21 Budget Estimates	2020-21 Revised Estimates	2021-22 Budget Estimates
Pension	183955	210682	204393	189328
Defense	318665	323053	343822	347088
Subsidy				
Fertilizer	81124	71309	133947	79530
Food	108688	115570	422618	242836
Petroleum	38529	40915	38790	12995
Agriculture and allied activities	112452	154775	145355	148301
Commerce and Industry	27299	27227	23515	34623
Education	89437	99312	85089	93224
Energy	43542	42725	33440	42824
Health	63425	67484	82445	74602
Interest	612070	708203	692900	809701
Rural Development	142384	144817	216342	194633
Social Welfare	44649	53876	39629	48460

Source: Budget at a glance, 2021-22 (GOI)



Source: Budget at a glance, 2021-22 (GOI)

Centre's fiscal deficit touches 46.2% of annual target till Nov-end

(Source: Business Standard, December 31, 2021)

The central government's fiscal deficit at the end of November worked out to be 46.2 per cent of the annual budget target for the financial year 2021-22 due to an improvement in the revenue collection. The deficit figures in the current financial year till November appear much better than the previous financial year when it had soared to 135.1 per cent of the estimates mainly on account of a jump in expenditure to deal with the COVID-19 pandemic. For the current financial year, the government expects the deficit at 6.8 per cent of GDP or Rs 15.06 trillion. According to the data, the total receipts of the government at the end of November stood at Rs 13.78 trillion or 69.8 per cent of the budget estimates (BE). The collection was just 37 per cent of the BE of 2020-21 in the corresponding period last fiscal. The tax (net) revenue so far stood at 73.5 per cent of the BE of 2021-22. It was only 42.1 per cent of BE 2020-21 in the corresponding period of last fiscal. The CGA data further said the central government's total expenditure at the end of November stood at Rs 20.74 trillion or 59.6 per cent of this year's BE. The fiscal deficit for 2020-21 stood at 9.3 per cent of the gross domestic product (GDP), better than 9.5 per cent projected in the revised estimates in the Budget in February.

(a) Explain the main items of Revenue Expenditure of GOI. **(5Marks)**

(b) Using the information from the above table, figure and news article, elaborate the impact of COVID 19 pandemic on

- Government revenues (in Revenue and capital account separately) **(5Marks)**
- Government expenditure (in Revenue and capital account separately) **(5Marks)**
- Fiscal deficit **(5Marks)**

Q.3. Read the following excerpts and answer.

Minutes of the Monetary Policy Committee Meeting

(Source: Minutes of the Monetary Policy Committee Meeting, December 6 to 8, 2021, RBI)

The Monetary Policy Committee (MPC) at its meeting today (December 8, 2021) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Globalisation of inflation and monetary policy making

(Source: Times of India, January 9, 2022)

The CPI in India in November 2021 was close to 5%, while the core inflation was above 6% and WPI above 14%. Not only in India, but globally inflation is high. In the US, it is above 6%, well above their target of 2%. So, inflation is back globally for the first time in decades, but this time it could be different. What should central banks, particularly those in emerging market economies, do?

Much of the theory and understanding of inflation comes from studying the high inflation periods of the past, particularly in advanced economies (AE), in a closed economy setting. The last major episode being the Great Inflation period in the USA between 1965 and 1982. The world was very different then. The only global factor monetary authorities worried about was crude oil prices. Over the last three decades' inflation has become much more synchronised, not only in advanced economies, but also in emerging economies. As the graphs show, the spread of inflation across countries has decreased significantly in both groups of countries.

Over the last few decades, the world has become increasingly globalised. Trade intensity has increased in both AEs and EMEs. The nature of production has also changed significantly. Value chains have become fragmented and distributed across multiple nations. Disruptions in the global supply chain has led to a shortage in supply in certain sectors because of this deep cross-border linkage. However, even without disruptions, it is clear that price rise in any country is now bound to have repercussions in other countries. Thus, focussing entirely on domestic factors in determining monetary policy response may not be enough.

Convergence in monetary policy is another reason why inflation is much more in sync across countries. Since the last sustained high inflation period in the 70s, there has been a sea-change in monetary policy making, and quite importantly it has become, broadly speaking, similar across countries. Since early 1990s, starting from New Zealand, more and more countries have adopted inflation targeting. India is a late comer to this group, and adopted inflation targeting in 2015. For AEs this goes a step further –target inflation rate has also converged to 2%. This convergence of monetary policy is not limited to conventional monetary policy of setting interest rates, often asset purchase programs have also happened in tandem. The latest demonstration of that has been in March 2020 when, following the onset of the Covid pandemic, an outflow started from the EMEs and the Cboe volatility index (VIX) shot up. A concerted effort in announcing asset purchase programs, in both AEs as well as EMEs, stemmed the outflow from EMEs and VIX came down to a lower level.
However, it is not guaranteed that this kind of cohesion in monetary policy seen during the low inflation era will continue and, going forward, a big risk is that monetary policy may not be that well-coordinated across countries. The economic recovery might be asynchronous across countries. Central banks may have different inflation appetite depending on domestic factors including election cycles. This will take the world to an unfamiliar territory. In particular, the impact on emerging economies can be severe because of the externalities from the monetary policy decisions of other nations. Any sudden move by them can lead to a situation far worse than the taper tantrum of 2013.

The MPC in India has been rather dovish so far and focussed more on supporting economic recovery than tackling inflation. There is a fine line – beyond a threshold, increase in inflation can be highly non-linear and it can spiral up very quickly. The safest way is to tackle inflation early on. The MPC keeping repo rates unchanged was probably expected, but continuing with the accommodative stance is questionable. Moreover, while MPC rightly identifies financial tightening globally as a risk factor to the recovery of the economy, it does not seem to acknowledge the globalization of inflation, nor any indication that it is prepared for an era of asynchronous monetary policy making across the globe and dealing with the spillover of monetary policy actions in the advanced economies. This is the time when the MPC has to establish its reputation in fighting inflation. It needs to acknowledge and identify the global risks and act accordingly.

(a) Discuss the possible reasons for this increased co-movement of inflation in advanced and emerging economies. **(5Marks)**

(b) Elaborate on the possible factors/ reasons for criticizing the accommodative stance of India's monetary policy in the current scenario. **(5Marks)**