JAIPURIA INSTITUTE OF MANAGEMENT
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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

SECOND TRIMESTER (Batch 2022-24)

END-TERM EXAMINATION, JANUARY 2023

Set-I (END TERM)

Course Name	Emerging Economic Environment	Course Code	**30402**
Max. Time	**2 hours**	Max. Marks	**40 MM**

INSTRUCTIONS:

All questions are mandatory.

The answer should be briefed and very precised – a word limit of 300 (maximum) should be followed for each answer. Avoid taking extra sheets.

Question 1. The Russian invasion of Ukraine and the subsequent war sparked rapid and dramatic increases in some global trade prices, particularly for fuel products, wheat, and fertilizer for which Russia and Ukraine are major exporters. It is now clear that these price changes were not due to actual changes in total supply, which remained largely unchanged (although source locations and trade routes shifted). Instead, market expectations amplified by media hype, financial speculation in commodity futures, and simple profiteering by major fuel companies and agribusinesses, were probably the major factors. This is why these prices rose sharply from January until around June 2022, and then subsided, such that by late September, they were down to pre-Ukraine War levels. Nevertheless, developing countries have suffered from those price rises, and not only because of the increase in the prices of these essential commodities that are universal intermediates entering into all other production and distribution costs directly or indirectly. There tends to be a ratchet effect of these prices within the developing world, as they stay high within their economies in the absence of countervailing measures by governments. The higher prices of what are essential imports for net oil-importing and food-importing countries also puts pressure on their trade balances. Meanwhile, the impact of the war and related sanctions on supply chains and disruption of trade routes can adversely affect exports.

Several Indian analysts currently put forward these explanations of the Indian economy's poor trade performance and rising trade deficits in recent months. Certainly, India's trade has also suffered, merchandise exports are mostly stagnant barring a few months, and clearly declining since June 2022. Imports by contrast have been rising and stayed relatively high over this period and have continued to increase even after global fuel prices have come down.

Based on the above observation, answer the following questions.

1. The major economies of the world are moving towards deglobalization and becoming more self-sufficient. Apart from the above crisis, list the major geopolitical issues responsible for it.

Analyse how is this process going to affect the global businesses in general and the Indian corporates in particular, citing relevant examples. **[5+5 marks]**

2. In spite of India being declared as the fastest growing economy post Covid, Indian currency is at an all-time low against the dollar. Devise a policy plan focusing on all major key macroeconomic variables like Inflation, Investment, etc. to help the Indian government to tackle the current economic challenges posed by the Russia and Ukraine war. **[10 marks]**

Question 2: The Finance Minister would right now be busy constructing the Budget for 2023-24. While she does so, there are several macroeconomic factors that she would be considering. Even though Covid-19 seems to be a distant memory now, the impact it had on the global economy is still playing out. Almost all Central Banks are tightening the monetary policy to combat inflation. This is resulting in a worldwide slowdown, with many of the large economies expected to get into a recession.

While domestic consumption provides some cushion to the Indian economy, it has not remained unaffected as the Indian growth cycle is increasingly synchronized with that of the world. Consumption demand recovery remains uneven as lower-value goods continue to trail growth in higher ticket items. This indicates continuing stress at lower income groups within the country. An increase in lending rates by RBI to levels higher than the pre-pandemic period is expected to suppress demand growth further.

Most research firms are projecting an economic slowdown, estimating Indian real GDP to grow by 6 to 7% in FY24. Signs of a slowdown are already emerging as IIP for export-linked sectors has been on a falling trend since Q2'FY23. This is expected to intensify in FY24 as aggressive rate hikes in western countries pull down their economies. As such, investment let growth shall continue to play a dominant role in FY24 as well.

Private sector investment in India continues to be substantially lower than the peak of 31% (fixed capital formation as a percent of GDP) in 2011. With improved balance sheets and reduced tax rates, a significant upswing in private capital investment has been anticipated for the last two years. The government is also facilitating it by providing Production Linked Initiatives (PLI) in various sectors. Private sector companies have indeed stepped up their investment and expect to invest Rs 6 trillion in FY23. It is, however, lower than expected levels.

Answer the following questions, based on the above scenario.

1. Most major economies in the world are following tightening monetary policy to combat inflation. Assess this strategy and evaluate whether it may lead to a global economic slowdown. **[10 marks]**

2. Illustrate the reasons why private sector investment is not picking the pace despite several efforts of the Government of India. Use concept of multiplier to help our FM correct this situation. **[10 marks]**