JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM
SECOND TRIMESTER (Batch 2017-19)
MID TERM EXAMINATIONS, NOVEMBER 2017

Course Name	Macro Economics and Business Environment	Course Code	ECO201
Max. Time	1 hour	Max. Marks	20

INSTRUCTIONS: Attempt all questions.

Q1. The following table summarizes some macroeconomic quantities of a country called *Utopia*:

Planned investment	I = 200
Government purchases	G = 400
Exports	X = 100
Autonomous taxes	T = 200
Autonomous consumption	Ca = 50

- 'b' denotes the marginal propensity to consume of the country
- 'm' denotes the imports-to-income ratio of this economy (2*5=10)

a. If b= 0.8 and m= 0.1, calculate the *foreign trade multiplier* of Utopia, as a function of b and m.
b. What is the level of equilibrium aggregate income of Utopia in a closed economy?
c. Determine the saving function with given information.
d. If nominal GDP in 2011 in Utopia is 216 and the GDP deflator is 108, what is the real GDP in 2011?
e. What was the % change in real GDP between years 2000 and 2001, if real GDP in the year 2000 and 2001 was 180 and 188 respectively?

Q2. Why people hold any money balances at all? Why people not always hold bonds and only get hold of money the moment they need it to pay for transactions? (2)

Q3. Describe the role of central bank which creates an impact on interest rates and aggregate output level in the economy. (2)

Q4. Based on the edited opinion by Dr. *Montek Singh Ahluwalia, Deputy Chairman of the erstwhile Planning Commission,* titled *"The slow GDP growth in the first quarter is a warning signal"*, Answer the following questions: (2*3=6)

a. What is GVA Market Price (Headline GDP).

b. What were the underlying reasons for poor economic performance of Indian economy in Quarter 1 of fiscal 2017-18?
c. Comment on the main challenges before the NDA government to put the economy to the right growth track.

The recently released data for the first quarter of 2017-18, showing GVA (gross value added) growth at only 5.6%, should be seen as a warning signal. What is most disturbing is that industrial growth (which includes construction) was only 1.9% over the same quarter in the previous year, the lowest in 21 quarters. Since this is the sector that will generate much of the employment needed outside agriculture, policy makers would be well-advised to worry and take corrective steps.

Too much of the discussion on the slowdown in the last two quarters has focused on whether it was due to the impact of demonetisation or, more recently, the destocking effect of the goods and services tax (GST). Demonetisation was undoubtedly more disruptive than was earlier projected, and its impact also lasted longer, but the economy will recover from this one-time shock. The destocking effect of GST is almost certainly a one-quarter problem. However we need to pay more attention to underlying weaknesses that may undermine our growth performance unless consciously corrected. Declining investment is a major problem that has been evident for some years. Gross fixed capital formation in current prices fell from 31.3% of gross domestic product (GDP) in 2013-14 to 27.1% in 2016-17. This needs to be reversed. Drilling deeper to look at investment by sub-sectors (public, private and households, which includes the informal sector) reveals an interesting picture. Exports are often mentioned as providing a demand-side stimulus for GDP, but this understates their importance in promoting growth. While exports add to demand, the imports which they finance constitute a corresponding leakage from demand. The real case for a greater export effort is that it will increase India's linkage with global markets and global technology trends, with potential productivity gains. It will encourage the growth of strong Indian firms exporting to world markets, and planning their scale of production to achieve and maintain global competitiveness. This will also make them generators of high quality employment in the process. (Source: Mint dated Sep 07 2017.)