JAIPURIA
INSTITUTE OF MANAGEMENT

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**
**POST GRADUATE DIPLOMA IN MANAGEMENT**
**SECOND TRIMESTER (Batch 2017-19)**
**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 "How deep is India's economic mess?"

Excerpts from an article published in Livemint, September 28, 2017

Hindustan Unilever chief executive Sanjiv Mehta said in a presentation to investors that rural demand for its products has been weak because of the lingering effects of demonetization as well as the farm crisis. Larsen & Toubro group executive chairman Anil Naik said that private sector companies are not in a position to launch new projects because of the excess debt they have on their balance sheets.

The narrative on the Indian economy has definitely taken on a darker hue ever since it was revealed that economic growth had unexpectedly slumped to 5.7% in the first quarter of the current fiscal year, the slowest pace of expansion in three years. The biggest analytical challenge right now—for policymakers and investors—is to separate the transient from the structural.

One part of the sharp slowdown in quarterly growth has been explained by the inventory destocking by companies before the implementation of the goods and services tax (GST) while another part has been ascribed to the technical problem of the deflators used by government statisticians to convert nominal output growth to real output growth. The manufacturing purchasing managers index (PMI) moved into expansion territory in August after the slump in July. The services PMI has been more sticky. There is some good news in high-frequency indicators such as cars, two-wheelers, tractors, air traffic and railway freight. The data for cement, coal and steel continues to be disappointing. Foreign trade offers a ray of hope. These high-frequency indicators suggest that economic growth in the second quarter could see some recovery from the disappointing levels of the first quarter.

The Indian economy bottomed out in the third quarter of 2013, according to ADB. The subsequent upturn in the business cycle has lasted 14 quarters, higher than the average business cycle upturn of 12 quarters but lower than the maximum of 18 quarters. The upshot: High-frequency data suggests that the Indian economy could see a small recovery in the second quarter of the current fiscal year while business cycle data shows that the cyclical expansion could be running out of steam. In lieu of above article

A. Discuss with reasons the phase of business cycle Indian economy seems to be undergoing? [2]

B. In current situation, what monetary and fiscal policy measures would you suggest to smoothen the cycle? [2]

C. GST and demonetization have been major reasons for the current economic conditions in the country. Discuss. [2]

Q: 2 An economy is characterized by the following equations-

Consumption Function = $50 + 0.5Y_d$; Investment = Rs. 350 Crores; Tax = Rs. 60 Crores; Government Expenditure = Rs. 200 Crores; Exports = Rs. 90 Crores; Imports $M = 0.05\,Y$

Compute:

A. The equilibrium level of income [2]

B. Comment if there is trade deficit/ surplus. [2]

C. The increase in government expenditure required to ensure that the economy reaches the full employment level of income of Rs. 1500 crores. [2]

Q: 3 Suppose in an economy:

Consumption function (C) = $200 + 0.80Y_d$; Investment function (I) = $100 - 400r$; Government expenditure (G) = 300; Taxes (T) = 300; Exports (X) = 250; Import function (M) = $174 + 0.20Y$; Money Supply ($M_s$) = 170; and Demand for money ($M_d$) = $0.20Y - 400r$; Where, $Y_d$ is disposable income and $r$ is rate of interest.

A. Find out interest rate and aggregate income at which both the commodity and money markets will be simultaneously in equilibrium? [4]

B. Other things remaining same, if exports increase from 250 to 350, what will be the implications for commodity and money market? [2]

Q: 4 **Excerpts from an article: Budget 2018: Govt stares at fiscal wall on rural spending path, Business Standard Dated December 20, 2017**

The government would have to walk a fiscal tightrope if it offers, as is widely believed, more sops for the rural and agriculture sector in the 2018-19 Budget. Irrespective of what happens with the fiscal deficit target this year, top government officials are not in favour of a fiscal relaxation in 2018-19, *Business Standard* has learnt. As such, the government has little room for enhanced spending. The fiscal deficit target for next year, according to the Fiscal Responsibility and Budget Management (FRBM) Act, and the report by the FRBM committee, should be 3 per cent of gross domestic product (GDP). For 2017-18, the fiscal deficit target has been budgeted at 3.2 per cent of GDP. Many policy watchers to predict that the Budget would have incentives for the agriculture sector and the rural economy.

Any such spending push would have to be done keeping in mind the strict fiscal deficit target as well as the end of the oil "honeymoon", as crude prices touch $65 a barrel. Officials who have interacted with the Prime Minister's Office said Modi was of the opinion that the deficit targets were sacrosanct, especially in light of recent concerns raised by rating agencies Moody's and Standard and Poor's. Finance Minister Arun Jaitley was also said to be in favour of maintaining the fiscal glide path next year. There was acceptance that due to the goods and services tax this year, there might a slight deviation. Officials maintained that has to be corrected in 2018-19.

A senior government official and a member of the Fifteenth Finance Commission (FFC) told *Business Standard* the Budget-makers would have to find a balance between delivering some pleasing announcements in the last full Budget before 2019 general elections and maintaining budgetary credibility. "There will be some constraints. Oil prices are a factor. We will also have to see how GST projections play out for next year. The government cannot shy away from its commitments on social and rural sector schemes, as well as capital spending," the government official said.

A. "Government has little room for enhanced spending" Discuss this statement in context to the article. [2]

B. In your opinion, mention the necessity of planning a deficit budget to the target 3.2 percent of GDP. Discuss the possible impact if the planned deficit exceeds the target. [3]

C. How increasing oil prices can impact the fiscal deficit of the country? [3]

D. Fiscal deficit should also be controlled by reducing revenue expenditure. Elaborate. [3]

Q: 5 **RBI Monetary Policy Meet December 2017: Excerpts from Financial Express Dated December 6, 2017**

The Reserve Bank of India kept the repo rate unchanged at 6% in its latest credit and monetary policy review, as was widely expected given the concerns on the rising headline inflation and firm global crude oil prices. The RBI's 6% repo rate, last revised in August, is lowest in seven years since November 2010. "On the basis of an assessment of the current and evolving macroeconomic situation at its meeting today, the Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.0 per cent," the central bank said in its policy statement.

The central bank had reduced the benchmark lending rate by 0.25 percentage points to 6% in August, bringing it to a 6-year low, however, kept it unchanged in October. The Consumer Price Index (CPI) for October had accelerated to a seven-month high of 3.5% from a year ago, even as a Reuter poll of 26 economists showed that there are expectations that inflation will breach its 4% target in the next few months.

A. Highlight the concerns, due to which the MPC maintained status quo in the recent revision. What is Liquidity Adjustment Facility and how does it act as an important tool in regulating credit flow. [2]

B. Apart from LAF, comment on any two more methods that may help in achieving objectives of monetary policy. [3]

C. How CPI is measured in India and which according to you: WPI or CPI which is considered a better measure of inflation and why? [3]

D. Comment on the relational interdependence between Growth, Inflation and Unemployment. [3]