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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
POST GRADUATE DIPLOMA IN MANAGEMENT
SECOND TRIMESTER (Batch 2017-19)
Re - 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 An economy is characterized by the following equations:

$C = 4 + 0.75\ Y_d$; $G_T = 8$; $T = 0.2\ Y$; $G = 120$; and $I = 110$

Where C is consumption spending, Y_d is personal disposable income, G_T is transfer payments, T is tax, G is government spending, and I is investment.

Subsequently the economy becomes an open economy with exports $X = 55$ and imports $M = 5 + 0.1\ Y$

A. Calculate the difference between the income of the closed and the open economy

B. At equilibrium, does the economy have trade deficit or trade surplus and by how much?

C. How much additional government expenditure will be required to increase the equilibrium level of national income by Rs. 50? **[2*3 = 6 Marks]**

Q: 2 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 and that of LM curve.

B. Find the equilibrium level of interest rate and income

C. At equilibrium, if investment increases by 50 units, then what shall be the implication on commodity and money market? **[2 * 3 = 6 Marks]**

Q: 3

The risk of rising crude oil prices

Livemint: 13 Nov., 2017

[Excerpts]

As a large importer of crude oil, India benefited significantly from lower prices. It helped contain inflation and had a favourable impact on both the fiscal and current account deficits. But a sharp reversal in prices can roll back some of those gains. Oil prices touched a two-year high earlier this week and have gone up by about 14% over the last one month. The expectation in the market is that prices could remain elevated owing to several reasons, such as drawdown in inventories, especially in the US, better compliance with the voluntary production cut by the Organization of the Petroleum Exporting Countries (OPEC), slower pickup in US shale oil and continued geopolitical risk in West Asia. Further, the internal power struggle in Saudi Arabia has added to the uncertainty. According to the International Monetary Fund, Saudi Arabia will need oil prices to be at $70 per barrel for fiscal break-even in 2018. Even though India is in a relatively strong macroeconomic position, a higher level of oil prices could still pose challenges for policymakers.

They could have implications for growth, inflation, currency, current account deficit and fiscal deficit. According to a recent note by Nomura, every $10 increase in oil price increases consumer price inflation by 0.6-0.7 percentage point. It also estimates that a similar rise worsens India's current account balance by 0.4% of the GDP. Reduction in excise duty on petrol and diesel by Re1 per litre lowers collection to the tune of 0.08% of the GDP.

Since the government raised excise duty when prices were falling, it could come under pressure to reverse the hike if prices continue to rise. Lower revenue would also result in lower public investments, which will affect growth. With added uncertainty related to revenue and economic activity due to teething problems with the goods and services tax, could worsen the outlook for India.

If oil prices move up to $65 per barrel, inflation could go up by 30 basis points for the fiscal and the real gross value-added growth could be lower by 15 basis points. Expectation of higher inflation will reduce the chance of a potential rate cut and could affect market sentiment. It is likely that the RBI's monetary policy committee will mull over the possible fallout in its next meeting in December. Meanwhile, the government would be well advised to avoid reducing duty if prices remain at higher levels. It would need higher revenue to push capital expenditure and move forward with fiscal consolidation. It will be extremely important to keep fiscal deficit in control in order to protect hard-won macroeconomic stability.

A. Discuss the inter-relation between current account deficit and fiscal deficit citing examples from this article.

B. Which factor is responsible for inflation in the article: demand pull or cost push? Highlight the monetary and fiscal policy dilemma that the government may encounter in the process of containing inflation.

C. Differentiate with the help of examples, capital and revenue expenditure.

D. Quote and elaborate two fiscal and two monetary policy instruments which may help in stimulating growth in the country. **[3+3+3+5 = 14 Marks]**

Q: 4 **A.** Discuss with the help of an example how commercial banks contribute to additional money supply and credit creation process in an economy. Assume the case of Mr. Johnson who makes a primary deposit of INR 10,000 with a commercial bank. Also, the statutory requirements are: CRR = 4%, SLR = 19.5 %.

B. Sudden and unexpected deflation is of much more serious concern for an economy than sudden inflation. Do you agree? Why or why not?

C. Discuss the new method of measuring GDP in India, highlighting the difference between product tax and production taxes

D. Demonstrate the impact of following events on price level and real GDP (AD-AS curve):

(i) Interest rates have been decreased under the expansionary monetary policy

(ii) Firms are pessimistic about the future economic conditions in the country

(iii) Changes in foreign variables due to increase in real GDP

(iv) International Crude oil prices; a major input for a lot of industries are rising **[3 + 3 + 3 + 5 = 14 Marks]**

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