

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM (SM)
III TRIMESTER (Batch 2017-19)
MID TERM EXAMINATION

Course Name	Macro Economics and Business Environment	Course Code	ECO302
Max. Time	1 hour	Max. Marks	20

INSTRUCTION: Attempt all questions

Q.1. India has moved from an environment of “crony socialism” to one of “stigmatised capitalism”, making the environment for policy reforms a tough one, said Arvind Subramanian, the government’s chief economic adviser. Subramanian, while releasing the Economic Survey for 2017-18, spoke of India’s past experience which has left the country with an ambivalent feeling towards private enterprise.

Explain the term ‘Crony socialism to stigmatized capitalism’ used in the paragraph given above.

(2.5 Marks)

Q.2. Suppose, Consumption Function, $C = 50 + 0.80Y_d$; Investment, $I = 100$ Crores; Tax, $T = 20$ Crores; Government Expenditure, $G = 50$ Crores

- (a) Find out the equilibrium level of income. (2.5 Marks)
- (b) Calculate the budget deficit/ surplus in government account? (2.5 Marks)
- (c) What is the multiplier effect ($G M = \Delta Y / \Delta G$) of the government expenditure if G increases by additional 50 crores. (2.5 Marks)

Q.3. Based on the following abstract, answer the questions that follow.

Budget 2018 looks to tap Bharat to spur consumption economy

(Source: Mint, February 02, 2018)

India’s consumption story is here to stay. This time, it’s backed by finance minister Arun Jaitley’s Budget for Bharat, or rural India, that would potentially increase cash flow across the agrarian hinterlands. In Union Budget 2018, Jaitley has relied on rural India to keep the consumption story going despite the fact that just 1% of India’s richest corner 73% of India’s wealth generation. Jaitley outlined a slew of measures to boost agricultural production, increase farmers’ income and laid stress on the ‘Make in India’ programme for providing “livelihood opportunities in rural areas”. To be sure, rural markets, home to about 70% of India’s 1.3 billion population, account for around 35-40% of sales of the packaged goods companies that have nationwide presence. These companies have reported slower growth in rural markets over the past few years. Jaitley’s focus on strengthening the rural economy will boost overall consumption even in the longer term, said Anil Talreja, partner, Deloitte India, a consulting firm.

Besides increasing support to existing schemes relating to rural employment and infrastructure to Rs14.34 trillion, the finance minister has allocated Rs1.87 trillion for the rural, agriculture and

allied sectors, an increase of 24% from the previous year. Jaitley also announced creation of Rs2,000 crore agriculture market infrastructure fund and strengthening of electronic national agriculture market (e-NAM). The plan to develop the cluster-based model horticulture to assist groups of farmers from production to marketing besides allocating Rs10,000 crore for fisheries and animal husbandry development under Nabard are all targeted to increase farmers' income.

"It presses all the right buttons and ticks all the right boxes when it comes to fuelling the rural and agrarian economy with a slew of measures including higher MSPs for kharif crops, upfront agriculture focus, institutional support for price discovery and upgradation of rural *haats* (markets) to give farmers better access to formal *mandis*," said Sunil Duggal, chief executive officer, Dabur India Ltd. Apart from allocation for rural jobs, Jaitley also doubled funds for food processing to Rs1,400 crore, and announced fixing the minimum support price for Kharif crops at 1.5 times the cost of production.

"The larger allocation to food processing and creation of food parks will also help in adding value to agriculture, reducing agri-wastages and creating large-scale livelihoods. The thrust on rural development will fuel consumption demand, enable an uptake in private investment, creating a virtuous circle of demand-consumption-investment led GDP growth," said ITC Ltd chief executive officer Sanjiv Puri. The initiatives announced by Jaitley in his budget, if executed well, will improve disposable income in the hands of masses, especially in rural India, said Saugata Gupta, managing director and chief executive of Marico Ltd. "This, in turn, will help the consumer goods sector acquire new consumer franchise in the long run. Improved infrastructure will also help ease of doing business and lower cost of operations," added Gupta.

According to Future Group chief executive Kishore Biyani, the Budget "marks an important shift from providing input subsidies, to increasing farmer incomes through emphasizing on more value addition of farmer's agri produce". "Higher value addition of Indian agri produce through the food processing industry can help create a large food-led FMCG sector, more choice and convenience for urban customers and most importantly increase demand and help farmers realise much higher income from what they produce," Biyani added. However, there is little for the urban markets that accounts for more than 60% of the consumption market, dominated by the salaried and business classes.

- (a) Present your understanding of how government policy environment can influence GDP. Use suitable theoretical underpinnings and examples to support your answer. (5 Marks)
- (b) Differentiate between GDP_{M.P.} and GVA (Gross Value Added)_{Basic Price}. In the light of India's new methodology of GDP estimation, examine why GVA has been given importance. (5 Marks)