



**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**  
**PGDM / PGDM (M) / PGDM (SM)**  
**SECOND TRIMESTER (Batch 2024-26)**  
**END TERM EXAMINATION, JANUARY 2024**

Course Name	<b>Macroeconomics and Economic Environment of Business (MEEB)</b>	Course Code	<b>20402</b>
Max. Time	<b>2 Hours</b>	Max. Marks	<b>40 MM</b>

**INSTRUCTIONS:**

- a. Attempt all Questions**
- b. Be Precise in your answer**

Read and answer the questions that follow.

**PART I**

**India's budget needs to address three medium-to-long term priorities**  
(Sudipto Mundle writes in Mint, Dec 26, 2004)

As we approach the new year, preparation of the annual budget is proceeding in earnest. Apart from the annual balancing of expenditure, revenues and the deficit, the next budget will hopefully address some medium-to-long term priorities, as there is no other policy document that can address these concerns in the post-Five-Year Plan era.

First, we need to make growth more employment intensive. Surveys indicate that the number of openly unemployed has grown from about 10 million persons in 2011-12 to about 20 million today. In addition, there are under-employed workers, though their robust quantification is difficult. How can growth be made more labour intensive? In a welcome move, the 2024-25 budget introduced several employment-linked incentive (ELI) schemes and an apprenticeship programme, altogether amounting to an allocation of nearly ₹12,000 crore. Assuming the private sector responds positively to these schemes, they would help draw in relatively well-educated unemployed individuals into formal-sector employment.

However, it would have little impact on the informal sector, which accounts for 90% of the workforce. For them, we need a different ELI that makes employment-intensive sectors of economic activity relatively more profitable. An NCAER study identified some 20 labour-intensive sectors where every ₹1 crore of output generates 20 additional jobs. Of these, about 10 sectors are already large employers of millions of workers: like construction, transport, trade, hotels and tourism, textiles and garments, food processing, etc. An ELI scheme linking incentive grants to additional employment could be extended to these sectors.

The demand in these sectors would be for relatively low-education, low-skill and low-wage workers, which matches the profile of the bulk of our workers. Alongside, skilling programmes can be used to gradually upgrade their skills, productivity and wages through on-the-job training. Next, we need a renewed infrastructure thrust. Muted growth during the last two quarters notwithstanding, most annual growth forecasts indicate that India's economy is back to the 6.5-7% growth path that was maintained prior to 2017-18. This is a robust growth path when benchmarked against other major economies. However, it is not high enough to achieve the Viksit Bharat goal by 2047. For that, we need growth of around 8% for the next two decades, a tough call.

How do we get there?

A key driver of India's robust growth is the thrust on public infrastructure investment, a hallmark of BJP-led central governments. To move to an 8% growth path, we need an even stronger public investment thrust, especially because private investment remains muted for a variety of reasons. Much of the public investment so far has been in transport infrastructure, especially roads, power and communications. For an extra investment boost, I would recommend augmenting fresh water supply. The world already has a fresh water deficit. It is estimated that by 2030 this deficit will amount to 40% of demand. In India, we see it in routine water rationing in urban areas, receding glaciers, steeply declining water tables and the drying up of tanks and streams. It is essential to better manage water demand through policy incentives to shift cropping patterns away from water-intensive crops like rice, wheat and sugarcane, which account for 70% of water consumption in agriculture, which in turn accounts for 70% of total water consumption. But augmenting the supply of fresh water is also urgent. The best option is to conserve rainwater, much of which flows into the sea, by building small dams, bunds and ponds on a war footing.

The second-best option is desalination of sea water through flash- distillation or reverse osmosis. These processes are not without problems and very expensive, especially given the high cost of energy. Yet, estimates indicate that desalination costs have declined from \$1 per cubic metre in 2020 to \$0.40 today, as the cost of renewable energy has plummeted. With a 7,000km shoreline, India has a high potential for desalination.

The third priority which needs a big push is R&D in cutting-edge technologies. The world is simultaneously experiencing three fundamental technological revolutions: an energy transition from fossil fuels to renewables, a bio-technological revolution and an artificial intelligence (AI) revolution. The way we live and work is undergoing profound changes. The world in 2050 will be very different from the one that existed in 2000. Countries that lead these technological transformations will also control the global economy. Hence, the intense technological competition, especially between the US and China.

In India, an institutional architecture is in place for addressing these ongoing revolutions, especially AI. Significant allocations were also made in the last budget to support these institutions. However, these initiatives need to be vastly scaled up, along the lines of the Atomic Energy Commission or Indian Space Research Organization, if India is to position itself as a significant player in the ongoing technological transformation. What is being suggested is a big-bang transformation, not incremental change. The expenditure for the three priorities outlined above will be significant. However, as I have often discussed, there is considerable flab in the fiscal system.



By eliminating unwarranted subsidies and tax expenditures (concessions and exemptions), large volumes of resources can be freed up to finance these new expenditure priorities.

### **Questions**

**Q.1.** How can the government balance the need for large-scale infrastructure investments with the constraints of fiscal discipline? Discuss the potential risks and rewards of increased public spending on transport and water infrastructure, highlighting the role of the investment multiplier in driving economic growth and employment. **(10Marks)**

**Q.2.** What are the macroeconomic impacts of redirecting subsidies and tax concessions toward R&D in advanced technologies? Evaluate the potential benefits and challenges of this approach to fostering technological innovation. **(15 Marks)**

## **PART II**

Read and answer the questions that follow.

Germany, once hailed as the powerhouse of Europe, is currently grappling with significant economic challenges that threaten its stability and growth. The economy has been experiencing stagnation, with projections for 2025 indicating minimal growth due to a combination of high energy costs, geopolitical uncertainties, and a weakening automotive sector. The Bundesbank has warned of persistent structural problems, including a loss of competitiveness in key industries and a decline in investment. As Germany navigates these hurdles, the implications for major companies like Volkswagen, which heavily relies on exports and faces fierce competition from international automakers, are profound.

### **Question:**

**Q.3.** Identify the underlying factors which have contributed to the current economic crisis in Germany, and how have policy solutions implemented by the government and the Bundesbank aimed to address these issues? Specifically, what implications do these challenges and policy responses have for Volkswagen's operations and competitiveness in the global automotive market? **(15 Marks)**