JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM –M
THIRD TRIMESTER (Batch 2017-19)
END TERM EXAMINATIONS, APRIL 2018

Course Name	Macro Economics and Business Environment	Course Code	ECO303
Max. Time	2 hour	Max. Marks	40

INSTRUCTIONS: Attempt all questions.

1. An economy is characterized by C = 600 + 0.75Yd, Investment (I) = 300, Government expenditure (G) = 160, and taxes (T) = 160. For increasing the equilibrium income by 400, find out the required increase/decrease in:
(a) Investment
(b) Taxes. [5marks]

2. "Well-designed infrastructure investments can raise economic growth, productivity, and land values, while also providing significant positive spillovers to areas such as economic development, energy efficiency, public health, and manufacturing." In the light of this statement explain the Government Expenditure Multiplier with its implications for business. [5 marks]

3. In a 3-sector economy, suppose the aggregate consumption (C) = 100 + $0.80Y_d$; aggregate Investment (I) = 150 – 600r; autonomous Taxes = 100; autonomous government purchases (G) = 80; autonomous transfer payments by the government (R) = 20; demand for money (M_d) = 0.20Y – 200r; and money supply (M_s) = 150; where 'r' is the rate of interest. On the basis of above information:
(a) Derive the IS equation
(b) Obtain the LM equation
(c) Calculate the simultaneous equilibrium income
(d) Deduce the simultaneous equilibrium interest rate
(e) Obtain aggregate consumption, aggregate investment when there is simultaneous equilibrium in the commodity and money market. [5 marks]

4. "Fiscal Policy is a potent tool in the hands of the government for regulating economic growth. Through the fiscal policy, the government can influence demand, supply and even the level of currency in the economy."
(a) Enumerate the role of fiscal policy in economic growth and its impact on business.
(b) What is fiscal deficit? Explain when fiscal deficit is beneficial for the economy and when is it harmful? [5 Marks]

5. Wholesale Price Index (WPI) for different years is given below:

Year	2009	2010	2011	2012	2013	2014	2015	2016
WPI	160	166	175	184	190	198	204	212

(a) On the basis of WPI given above, calculate the rate of inflation/disinflation for different years.

(b) Identify the years of inflation.

(c) Identify the years of disinflation.

(d) Suggest a suitable fiscal policy measure to control inflation? [5 marks]

6. Read the case given below and answer the questions that follow:

Fiscal and Monetary Policy Interaction

Monetary and fiscal policies are two macroeconomic stabilisation tools. However, these two policies have often been pursued in different directions. Monetary policy is often pursued to achieve the objective of low inflation to stabilise the economy from output and price shocks. On the other hand, fiscal policy is often biased towards high growth and employment even at the cost of higher inflation. For achieving an optimal mix of macroeconomic objectives of growth and price stability, it is necessary that the two policies complement each other. However, the form of complementarities will vary according to the stage of development of the country's financial markets and institutions.

With increasing independence of central bank in the conduct of monetary policy from fiscal dominance, there has been a renewed interest in the issue of monetary and fiscal policy coordination. Furthermore, the recent global financial crisis has once again demonstrated the importance of coordinated response of monetary and fiscal policies.

In the context of developing economies, it is often viewed that there is complete fiscal dominance and the central bank is subservient to the fiscal authority. Therefore, it is argued that the issue of coordination may not arise since the very concept of coordination arises only when the two institutions are independent. However, it is argued that actual execution of the two policies could significantly differ from what could be expected from the institutional arrangements. Furthermore, irrespective of the dependence/independence of the two policies, there will be interaction between these two policies. The nature of the interaction, however, will be conditioned by the institutional framework. The institutional arrangements have been changing in many developing countries as they are moving towards making central banks more independent, implying time varying behaviour of the interaction between the two policies, which has important implications for the objectives of macroeconomic stabilisation. Thus, from the macroeconomic policy point of view, it is important to empirically verify the nature of the interaction.

In India also, several changes have taken place in the monetary and fiscal policy frameworks, particularly since the beginning of the 1990s. These include complete phasing out of automatic monetisation of fiscal deficit through creation of ad hoc treasury bills in 1997 and prohibiting RBI from buying government securities in the primary market from April 2006 under the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. These changes are quite significant and have altered the basic nature of the interaction between monetary and fiscal policies. However, the central government continues to incur large fiscal deficits, which has implications for the demand management by the Reserve Bank.

(a) Do you think that proper coordination between fiscal and monetary policy is crucial for macroeconomic stabilization? Why or why not?

(b) What monetary policy changes are required to fight the situation of high inflation?

[15 marks]