

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

Course Name	Macro Economics and Business Environment	Course Code	ECO302
Max. Time	2 hour	Max. Marks	40

**INSTRUCTIONS: Attempt all questions.**

- Suppose the consumption function of an economy is  $C = 500 + 0.80Y_d$ ; aggregate income of the economy is 4000 and autonomous tax is 600. On the basis of given information, find out the savings function, aggregate consumption, marginal propensity to consume, and marginal propensity to save in this economy and write your interpretations about them. [5 Marks]
- An economy is characterized by  $C = 500 + 0.75Y_d$ , Investment (I) = 250, Government expenditure (G) = 160, and taxes = 160. For increasing the equilibrium income by 200, find out the required increase/decrease in
  - Investment expenditure
  - Government expenditure
 [5 Marks]
- Mr. X deposited a sum of Rs. 100,000 (cash) in his bank account. This money was lying idle in his house. It is understood that the banking system will contribute to additional money supply in the economy on the basis of this deposit. Illustrate the process and amount of additional money supply and additional amount of credit created by the banking system. [Assume CRR=5% and SLR=15%] [5 Marks]
- Fluctuations in the level of real GDP are manifest in the economy in the form of phases of expansion, slow down and recession. What are the characteristics of these phases of business cycles? Which of these phases represents the current status of the Indian economy? What macroeconomic policy measures would you suggest in the current economic situation in India? [5Marks]
- Write short notes on following:
  - Crowding out effect
  - Circular flow of income in the economy
 [5 Marks]

6. Read the following excerpts from the Sixth Bi-monthly Monetary Policy Statement, 2017-18 Resolution of the Monetary Policy Committee (MPC), Reserve Bank of India and answer the questions that follow.

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.0 per cent. Consequently, the reverse repo rate under the LAF remains at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.25 per cent.

The decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The MPC noted that the economy is on a recovery path, including early signs of a revival of investment activity. Global demand is improving, which should help strengthen domestic investment activity. The focus of the Union Budget on the rural and infrastructure sectors is also a welcome development as it would support rural incomes and investment, and in turn provide a further push to aggregate demand and economic activity. On the downside, the deterioration in public finances risks crowding out of private financing and investment. The Committee is of the view that the nascent recovery needs to be carefully nurtured and growth put on a sustainably higher path through conducive and stable macro-financial management.

- (a) What is meant by repo rate, reverse repo rate and MSF rate? [5 marks]
- (b) How does the monetary policy or changes in interest rate affect the growth and rate of inflation in the economy? [5 marks]
- (c) Explain how expenditure on rural sector and infrastructure proposed in the current budget will boost the economy. [5 marks]