JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

SECOND TRIMESTER (Batch 2025-27)

END TERM EXAMINATIONS, JANUARY 2026

SET-2

Course Name	Macroeconomics and Economic Environment of Business	Course Code	**20402**
Max. Time	**2 hours**	Max. Marks	**40 MM**

INSTRUCTIONS:

a. Answer all Questions.

b. Based on the requirements use graphs and equations to support your answers

Japan is a highly developed open economy facing persistent challenges of weak domestic demand, low inflation, and sluggish private investment. Despite prolonged accommodative monetary policy by the Bank of Japan, private consumption growth has remained subdued, reflecting high saving behavior, demographic aging, and precautionary motives.

To support economic activity, the Japanese government announced an increase in public infrastructure expenditure along with temporary income tax relief aimed at stimulating household spending. On the monetary side, interest rates remain near zero, ensuring accommodative financial conditions. However, a slowdown in global demand and episodes of yen appreciation have weakened export performance.

At the same time, rising global energy prices have raised concerns about imported inflation. Policymakers therefore emphasize the importance of coordinated fiscal–monetary policy to stabilize output while maintaining price stability.

Assume prices are fixed in the short run and the economy operates below potential output. Given Data (¥ trillion)

Consumption function: $C = 200 + 0.6Yd$

Proportional income tax rate: $t = 0.25$

Investment (autonomous): $I = 300$

Government expenditure: $G = 500$

Exports: $X = 400$

Imports: $M = 200$

Question 1 (10 Marks):

Explain the concept of national income aggregates, clearly defining Gross Domestic Product (GDP) at market price, Net Domestic Product (NDP) at market price, Net National Product (NNP) at market price. Construct the aggregate demand (AD) function for an economy and explain how the equilibrium level of national income is determined. Discuss the rationale for a low marginal propensity to consume (MPC) and a high propensity to save in an advanced economy such as Japan, highlighting key structural and demographic factors influencing household behavior.

Question 2 (10 Marks)

How an increase in government expenditure as an expansionary fiscal policy affects output and interest rates in the goods market. Determine whether crowding out of private investment is likely to be important in an economy like Japan, where interest rates are close to zero.

Question 3 (10 Marks):

Japan experiences a rise in inflation following an increase in global energy and commodity prices. Analyse the type of inflation most likely to arise in this situation and show how increases in global energy and commodity prices translate into domestic inflation. Discuss why demand-management policies may have limited effectiveness in controlling such inflation in the short run, with reference to the Japanese economy.

Question 4 (10 Marks):

The Japanese yen has depreciated in response to changes in global financial conditions. Critically assess how exchange rate depreciation influences exports and imports in an open economy such as Japan, with reference to price stability and import dependence. Examine the resulting impact on net exports and discuss how the transmission of exchange rate depreciation to aggregate demand differs across phases of the domestic business cycle.