

**JAIPURIA INSTITUTE OF MANAGEMENT NOIDA
POST GRADUATE DIPLOMA IN MANAGEMENT
SECOND TRIMESTER (Batch 2018-20)
END TERM EXAMINATION, January 2019**

Course Name	Business and Economic Environment (BEE)	Course Code	ECO201
Max. Time	2 hours	Max. Marks	40

Instructions: Attempt All Questions

Q.1. Based on the excerpt below, answer the questions that follow.

Excerpts from Bloomberg, Dated: October 29, 2018

What happens to China's economy in the fourth quarter of this year will be closely watched, with attention on whether the government can keep the pace of growth stable without a renewed surge of debt. While performance in the third quarter ticked down, much of the effect of the trade war and slowdown is still to be felt.

The early indicators show that economic conditions continue to weaken both on the domestic and external fronts," Bloomberg Chief Asia Economist Chang Shu said. "Economic sentiment is very poor, particularly among small private firms. We expect policy support for the economy to continue to broaden to all aspects of growth -- exports, consumption and investment." Top officials including President Xi Jinping also sought to bolster investor confidence, commenting on the fundamental strength of the economy and attempting to talk up the stock market, which has fallen almost eight percent this month. The manufacturing gauge will probably tick lower again while the non-manufacturing gauge, which covers the construction and service industries, is expected to be unchanged, according to forecasters surveyed by Bloomberg. The official manufacturing PMI reading slowed in September to a seven-month low.

Economic growth decelerated in the third quarter by more than expected -- to 6.5 percent, the slowest pace since the aftermath of the global financial crisis in 2009, according to official gross domestic product data released earlier this month. However, trade was a bright spot as manufacturers rushed to get shipments to the U.S. ahead of an increase in tariffs, which are slated to rise from current levels from January. Chinese factory inflation also moderated -- for the fourth month in a row, to the lowest level in two years, according to Bloomberg calculations. While good for purchasing managers, the slowing price rises will hit company profit margins and indicate a slowdown in demand. Market sentiment was mostly negative in October. The benchmark Shanghai Stock Exchange Composite Index fell in October to its lowest level in four years amid a broader drop in global equity markets. "Sales turned sluggish on slowing domestic demand and increasing export uncertainty, according to our survey results. Production activity moderated in October as a result, and the outlook turned gloomier," Shen Lan, the Beijing-based Standard Chartered economist in charge of the survey, wrote in an Oct. 22 report.

- A. Discuss, which phase of business cycle Chinese economy is undergoing? Give reasons to support your answer.
B. Discuss monetary and fiscal measures which may help to smoothen this cycle? **[5+5= 10 Marks]**

Q.2. Answer the following questions-

- A. India ranks 3rd on the basis of GDP (PPP) and is on the 7th position (slipped from 6th position in Nov. 2018) on Nominal GDP basis, while it is 126th in terms of GDP per capita (Source: IMF). Discuss the possible factors contributing to such figures citing the difference between the three.
B. "Armed conflict over territorial disputes in the South China Sea could be one of the major crises for US President Donald Trump's administration in 2019, according to an annual survey that identifies top flashpoints for US policymakers to watch in the year to come. Comment". **[5+5=10 Marks]**

Q.3. "The Index of Industrial Production rose 8.1% in October, data released by the government, marking a strong start to the third quarter of FY19 after a dismal second quarter, when the economy expanded by a less-than-expected 7.1%. Inflation, as measured by Consumer Price Index, cooled to 2.33% in November, improving chances of a rate cut by the Reserve Bank of India. The RBI next reviews monetary policy on February 7." A matter of double treat for economy! (Source: The Economic Times, Date: Dec 13, 2018)

- A. Discuss how a fall in CPI inflation and a rise in IIP can act as a double treat for economy?
B. In what circumstance, MPC may go for a rate cut in Feb 2019? Discuss with the possible impact of rate cut on economy.
C. What are Liquidity Adjustment Facility tools available with RBI? How would they affect liquidity in market? Differentiate between Bank rate and Repo rate. [3+3+4=10 Marks]

Q.4. Based on the excerpt below, answer the questions that follow

Rupee, bond prices extend gains as crude oil falls over 7%
Excerpts from Livemint | Dec 19, 2018

The Indian rupee and bond prices extended gains on Wednesday after crude oil prices slumped to a near 16-month low, and also after another open market operation announced by the Reserve Bank of India. The rupee opened at 70.08, rising for the third consecutive session. At 9.15am, the rupee was trading at 69.94, up 0.81% from its previous close of 70.45. The government 10-year bond yield dropped 11 basis points to 7.238% -- a level last seen on 9 April in its Tuesday's close of 7.347%. Bond yields and prices move in opposite directions.

Crude oil prices fell over 7% to hit a low last seen on August 2017 amid concern over a supply glut and pessimism on demand due to the trade war and slowing global economic growth. Year to date, oil prices are down 15.3%. They are currently down 34.5% from their 2018 peak of \$ 86.29 per barrel seen on 3 October. Radhika Rao economist at DBS Bank expects that if oil prices average USD75pb this year, the current account deficit is likely to stand at -2.5% of GDP, better than our forecast of -2.7%. The balance of payments deficit will narrow to USD15-20bn, vs USD25bn earlier. For further relief to the BOP, a deeper correction in oil prices requires to be accompanied by better risk-appetite.

The announcement from RBI on late Tuesday for further purchases of government securities under open market operations for total amount of Rs 50,000 crore in January 2019 also improved sentiment. Gains in Asian currencies further boosted the rupee after traders speculated that the Fed may signal Wednesday that it's approaching a pause in its rate-hike cycle. Traders are awaiting the Fed's guidance on the rate outlook for 2019, with policy makers widely expected to tighten for a fourth time this year at its two-day meeting which ends Wednesday. Continued buying interest from foreign investors in both equity and debt also helped the local currency. In November, FII bought a combined of \$1.76 billion and so far December they bought \$677 million in equity and debt. According to Care Ratings a fair rate for the rupee based on present conditions would be around Rs 70-71/\$ assuming FPIs are positive and increasing and trade deficit under control. But with the external factor of dollar strengthening continues to play its course further, the range could be up by a rupee of Rs 71-72/\$ especially as we approach the end of the 6-month period. So far this year, the rupee has declined 8.7%, while foreign investors have sold \$4.44 billion and \$7.34 billion in the equity and debt markets, respectively.

- A. What are the reasons that led to fall in crude oil prices? Who controls the global crude oil prices?
B. Enumerate the reasons that led to fall in rupee in last few months. However, rupee has gain a relative stability now, Discuss.
C. There is a positive sentiment related to CAD, with the fall in crude prices. Comment. How an increase/decrease in CAD may affect the fiscal position and inflation in the country? [3+3+4=10 Marks]
