JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM (M) SECOND TRIMESTER (Batch 2019-21)
END-TERM EXAMINATIONS, DECEMBER 2019

Course Name	Business and Economic Environment	Course Code	ECO201
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS: All questions are compulsory.

Q.1. Based on the following:

Consumption Function, $C = 50 + 0.80Y_d$
Investment, I= 100 Crores
Tax, T = 20 Crores
Government Expenditure, G = 50 Crores **(2*2=4 Marks)**

a) Calculate the equilibrium level of income.

b) If the government wants to increase the income level by 20000 crores, then by how much should the autonomous investment be increased?

Q.2. On the basis of following data, answer the questions that follow: **(3*2=6 Marks)**

Table1: QUARTERLY ESTIMATES OF EXPENDITURES OF GDP IN Q2 (JULY-SEPTEMBER) OF 2019-20 (at 2011-12 Prices)

Item	Expenditures of Gross Domestic Product (in crores)					
	2017-18		2018-19		2019-20	
	Q1	Q2	Q1	Q2	Q1	Q2
1. Private Final Consumption Expenditure (PFCE)	1,783,905	1,757,656	1,914,259	1,929,745	1,974,438	2,027,401
2. Government Final Consumption Expenditure (GFCE)	363,763	368,596	387,599	408,645	421,893	472,576
Gross Fixed Capital Formation (GFCF)	989,620	998,232	1,121,028	1,116,240	1,166,334	1,127,675
Valuables	62,728	46,187	42,303	45,958	40,863	40,854
Exports	633,368	647,213	697,740	729,297	737,544	726,549
Less Imports	777,543	754,113	863,352	926,895	899,991	862,478
Discrepancies	71,895	116,016	76,175	100,295	105,055	27,619

(a) Define and Calculate Real GDP for Q2: 2019-20.

(b) Explain the term Gross fixed Capital Formation and its importance in the current scenario.

(c) Few economic experts believe that the current slowdown is more of a cyclical rather than structural in nature. Present your understanding on the same. Explain the policy options looking at the Table 1.

Q.3. Analyse the data and news article given below and answer the questions that follow.

GOI's Fiscal Balances			Rs. Billion
	2017-18 (Actuals)	2018-19 (Revised estimates)	2019-20 (Budgeted Estimates)
Revenue Receipts, of which:	1435233	1729682	1962761
Tax revenues	1242488	1484406	1649582
Non tax revenues	192745	245276	313179
Revenue expenditure	1878833	2140612	2447780
Capital receipts	706740	727553	823588
Capital Expenditure	263140	316623	338569

(Source: GOI budget Documents)

Impact of corporate tax rate cut on firms, economy

(Source: Business Standard; September 23, 2019)

The government significantly reduced corporate tax rates on Friday, boosting investor sentiment in the midst of a severe slowdown. Big companies got a relief of close to 10 percentage points in the effective tax rate, including cess and surcharge. After this cut, base corporate tax rate in India has become competitive and should help boost investment. Reduction in corporate tax was a long-pending demand of Indian firms. India is likely to attract investors looking to move out of China. This might expand the corporate universe as new firms will now be taxed at 15 per cent. But more importantly, lower tax outflow could increase the share of profit making companies in India over time. Tax cuts might also raise their languishing profit margins above 10 per cent. But lower tax collection could affect the government's fiscal glide path. With a minor blip in 2016-17, combined fiscal deficit of Centre and states was nearing the 6 per cent of gross domestic product (GDP) target. A hole of 0.7 per cent of GDP due to tax cuts could compel them to borrow more, and disturb the bond market. It can also cancel out the positive impact of rate cuts by the Reserve Bank of India and slow the transmission process. Further, the share of corporate tax in the economy could go down to 3 per cent of GDP in 2019-20 (Chart 6). The rise in buoyancy will hit a speed-breaker this fiscal. However, the hope is that lower rates will push up economic activity and increase revenue in the coming years. **(5*2=10 Marks)**

a) Differentiate between Fiscal Deficit and Revenue deficit of the government.
b) Calculate Fiscal deficit for the three years given in the table (It is advised that the above table is pasted and more rows be added to insert the values of deficits).
c) Calculate Revenue deficit for the three years given in the table (It is advised that the above table is pasted and more rows be added to insert the values of deficits).
d) Examine the three main items constituting Revenue expenditure of the government.
e) Analyse the likely impact of corporate tax rate cut on the fiscal position of the government.

Q.4. Minutes of the Monetary Policy Committee Meeting October 1, 3 and 4, 2019
(Source: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48440)

The nineteenth meeting of the Monetary Policy Committee (MPC), constituted under section 45 ZB of the Reserve Bank of India Act, 1934, was held during October 1, 3 and 4, 2019 at the Reserve Bank of India, Mumbai. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 5.15 per cent from 5.40 per cent with immediate effect. The MPC also decided to continue with an accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target. These decisions are 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.

Domestic Economy assessment

On the domestic front, growth in gross domestic product (GDP) slumped to 5.0 per cent in Q1:2019-20, extending a sequential deceleration to the fifth consecutive quarter. Of its constituents, private final consumption expenditure (PFCE) slowed down to an 18-quarter low. Gross fixed capital formation (GFCF) improved marginally on a sequential basis but remained muted as in the preceding quarter. Government final consumption expenditure (GFCE) cushioned the overall loss of momentum to some extent. On the supply side, gross value added (GVA) growth decelerated to 4.9 per cent in Q1:2019-20, pulled down by manufacturing growth, moderating to 0.6 per cent. Agriculture and allied activities were lifted by higher production of wheat and oilseeds during the 2018-19 rabi season. Growth in the services sector was stalled by construction activity. Industrial activity, measured by the index of industrial production (IIP), weakened in July 2019 (y-o-y), weighed down mainly by moderation in manufacturing. In terms of uses, the production of capital goods and consumer durables contracted. Retail inflation, measured by y-o-y changes in the CPI, moved in a narrow range of 3.1- 3.2 per cent between June and August. While food inflation picked up, fuel prices moved into deflation. Inflation excluding food and fuel softened in August. Food inflation in August was elevated by a spike in the rate of increase in vegetables prices, a pick-up in pulses inflation and persistently high meat and fish inflation. On the other hand, softer increases in prices of eggs, oils and fats, non-alcoholic beverages and prepared meals, and deflation in prices of fruits and sugar cushioned the rise in overall food inflation. Deflation in the fuel group deepened in August largely due to the pass-through from a sharp decline in international prices of liquified petroleum gas (LPG).

The MPC notes that the negative output gap has widened further. While the recent measures announced by the government are likely to help strengthen private consumption and spur private investment activity, the continuing slowdown warrants intensified efforts to restore the growth momentum. With inflation expected to remain below target in the remaining period of 2019-20 and Q1:2020-21, there is policy space to address these growth concerns by reinvigorating domestic demand within the flexible inflation targeting mandate. It is in this context that the MPC decided to continue with an accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.

Based on the above article, answer the following: **(2*5=10 Marks)**

(a) Stabilisation of output around its potential level is one of the objective of our economic policies. Explain the statement in context to the "Output gap" mentioned in the news article above. Relate it to AD-AS Framework and assess the role of monetary policy in reducing this output gap.

(b) What type of monetary policy did RBI adopt? Interpret its intended outcomes.

Q.5. India's crude oil import dependence hits record high of 84.5% in Apr-Oct FY20
(Source: https://energy.economictimes.indiatimes.com/news/oil-and-gas/Indias-crude-oil-import-dependence-hits-record-high-of-84-5-in-apr-oct-fy20/72257974, November 27, 2019)

Stagnant crude oil production coupled with growing oil demand has pushed the country's oil import dependence to a record-high of 84.5 per cent in the April-October period of the current financial year 2019-20 (FY20), according to fresh data sourced from oil ministry's statistical arm. The data also showed that the country's import dependence increased despite a decline in oil imports to 130.7 million tonne (MT) in the said period, as compared to 134 MT imported in the corresponding period a year ago. Prime Minister Narendra Modi had set a target for the government to reduce the country's crude oil import dependence by 10 per cent by 2022. Oil minister Dharmendra Pradhan earlier this month had also said that the government is on track to meet this target.

Most of the country's oil and gas fields come from nomination fields which are ageing and are witnessing a trend of declining production. The government in order to incentivise investors and increase the country's production had revamped the domestic hydrocarbon licensing policy, brought in a new bidding mechanism under the Open Acreage Licensing Policy (OALP), auctioned discovered small fields (DSF) of state-owned Oil and Natural Gas Corporation (ONGC) and Oil India, and came out with a policy incentivising enhanced oil recovery (EOR) projects. However, even though the government in the past few years awarded more than 100 oil and gas blocks under the OALP and DSF rounds, crude oil production in the country has not increased due to the long gestation period involved in reaching first-oil. Not happy with the progress of domestic oil and gas production, the government had instructed ONGC and Oil India to invite technological partners for increasing production from 66 marginal nomination fields. Annual crude oil production from nomination fields operated by ONGC fell to its lowest level in 16 years in FY19. India's crude oil production in October declined to 2.7 MT, as compared to 2.9 MT produced in the corresponding month a year ago. Also, oil production in the first seven months (April-October) of the current financial year declined to 19.1 MT, as compared to 20.3 MT produced in the corresponding period a year ago.

Assess the impact of India's growing crude oil import dependence on India's: **(5*2=10 Marks)**

(a) Current account deficit
(b) Inflation
(c) Exchange rate
(d) Foreign exchange reserves
(e) Foreign investment climate
