PGDM (RM), Batch 2020-22
Macroeconomics for Retailers
RM-304
Trimester – III, End-Term Examination: April 2021

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the Answer Sheet. All other instructions on the question paper / notifications should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example)	3*10 Or 6*5	30
B	Compulsory Case Study with minimum of 2 questions	20	20
			50

Section A

(1) CILO 1

(i) How do you arrive at NNP at factor cost from GDP at market price (5 marks)

(ii) India's exports in January 2021 were USD 27.45 billion, as compared to USD 25.85 billion in January 2020, exhibiting a positive growth of 6.16 per cent, said Union Ministry of Commerce and Industry informed on Monday. Non-petroleum and Non-Gems and Jewellery exports in January 2021 were USD 22.44 billion, as compared to USD19.79 billion in January 2020, registering a positive growth of 13.40 per cent. Non-petroleum and Non-Gems and Jewellery exports in April-January 2020-21 were USD 188.77 billion, as compared to USD 197.94 billion for the corresponding period in 2019-20, which is a decrease of (-) 4.63 per cent.
A country's exports are dependent on other countries GDP and disposable income. Discuss. (5 marks)

OR

Is it possible to derive the aggregate demand curve from the expenditure method keeping in mind changes in price level? (10 marks)

(2) CILO 2

2A- Describe the Monetary policy framework of the RBI and explain how monetary policy impacts business cycles. (10 Marks)

Or

2B- How would each of these events affect the supply or demand for Indian rupee (10 Marks)

a) Stronger U.S. economy

b) A decline in Indian interest rate

c) Higher inflation in India

d) Decline in the US interest rate

e) Political uncertainty in India.

(3) CILO 3

India's real GDP in the ongoing **financial year 2020-21** is seen **contracting by 7.7 per cent** from a growth rate of 4.2 per cent in 2019-20, according to the first advance estimates of GDP released by the Ministry of Statistics & Programme Implementation (MoSPI). The contraction in the economy is mainly on account of the impact of the coronavirus (COVID-19) pandemic. "Real GDP or GDP at Constant Prices (2011-12) in the year 2020-21 is likely to attain a level of Rs 134.40 lakh crore, as against the Provisional Estimate of GDP for the year 2019-20 of Rs 145.66 lakh crore, released on 31st May 2020," the MoSPI release said.

Has the economy been moving towards an inflationary or recessionary output gap? In view of the above, suggest policy changes? (10 marks)

OR

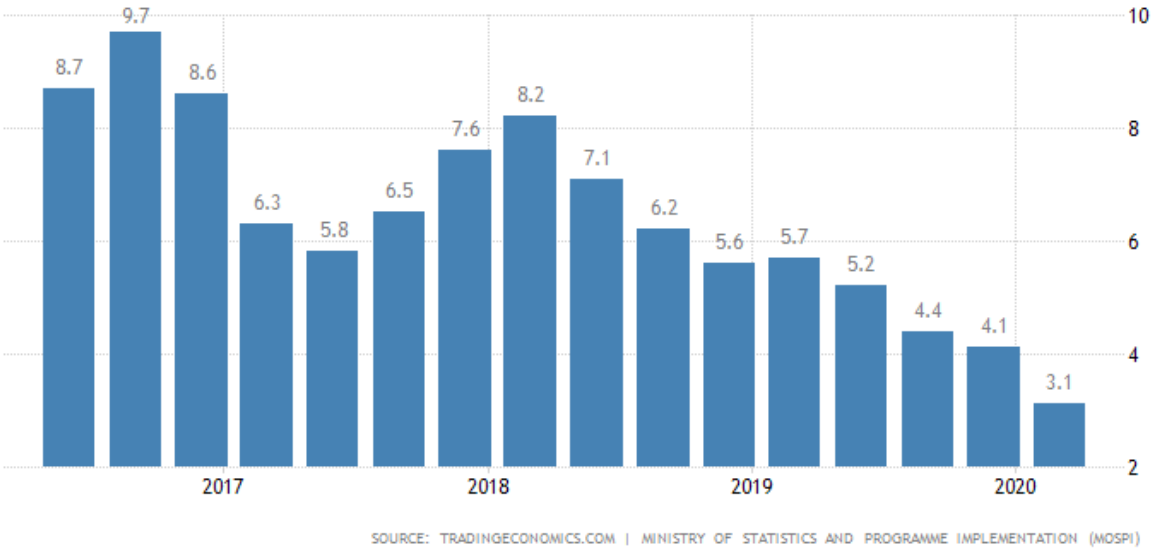
In case of an expansionary fiscal policy, will the Government increase or decrease tax rates and Government expenditure? Why? (10 marks)

Section B – Case Study (20 marks)

Will India return to 7+% growth rate in near future? The case study is for before pandemic situation.

It is well known that at present India is facing severe production crunch which is induced by Covid-19 lockdown. But, slow down in the Indian economy started much before that, *i.e.*, at the start of 2018 financial year (FY) (Fig:1). From the figure it can be seen that Indian economy's growth rate has decelerated from 8.2% in January-March 2018 quarter to 3.1% in January-March 2020. If you look at the figure, you will notice that the deceleration in the growth has been exponential, which suggest it is trend decline rather than cyclical.

Fig: 1- GDP growth rate



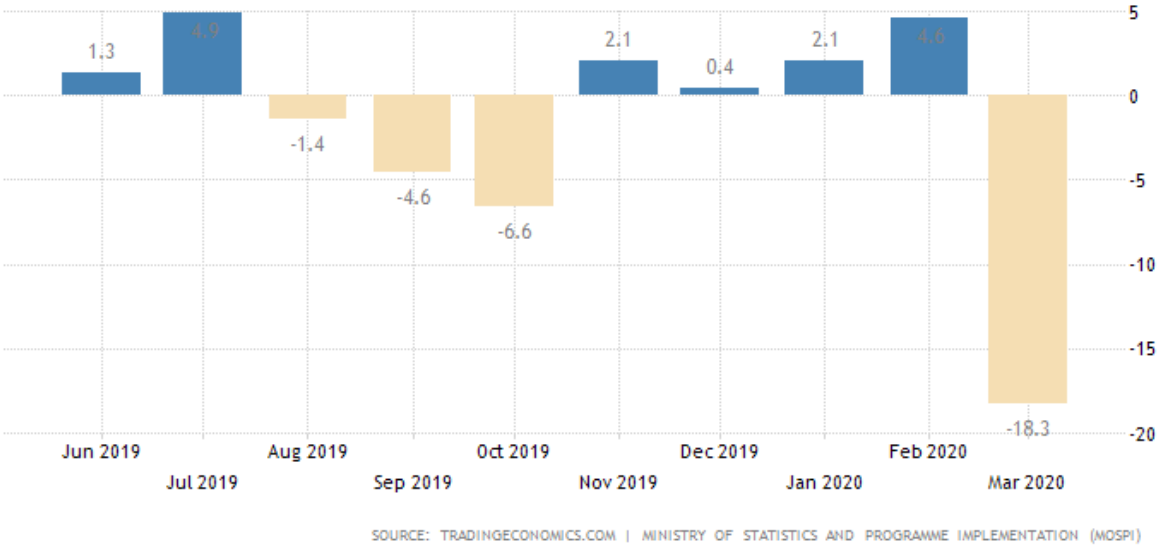
The government is aware of the decline in growth and has taken many steps to reboot the economy. But the monetary policy has taken most of the burden of boosting the growth. The RBI has already reduced its policy rate (repo rate) from the high of 6.5% in February 2019 to 4.00% in May 2020 (Fig:2). It is the repo rate on which all the lending rates are based, so in theory if repo rate decreases, lending rates also decline and consequently demand in the economy increases, which boosts growth.

Fig: 2- The RBI repo rate

But despite the RBI reducing the policy rate the growth sign as shown by high frequency indicator of growth,

like industrial production (IIP) growth is not encouraging (Fig:3). IIP is a lead indicator of growth. It details out the growth of various sectors of the economy such as mineral mining, electricity and manufacturing . Like GDP, IIP data is also compiled and published by the Central Statistics Office (CSO). It can be seen from the figure (Fig:3), that in the FY 2019-20, there has been substantial contraction in the IIP numbers. So we can say that despite reduction in repo rate industrial production has not grown much. This may be because Even after sharp reduction in the policy rate, the credit growth of the Indian economy has deteriorated.

Fig:3- Index of Industrial Production growth rate of India



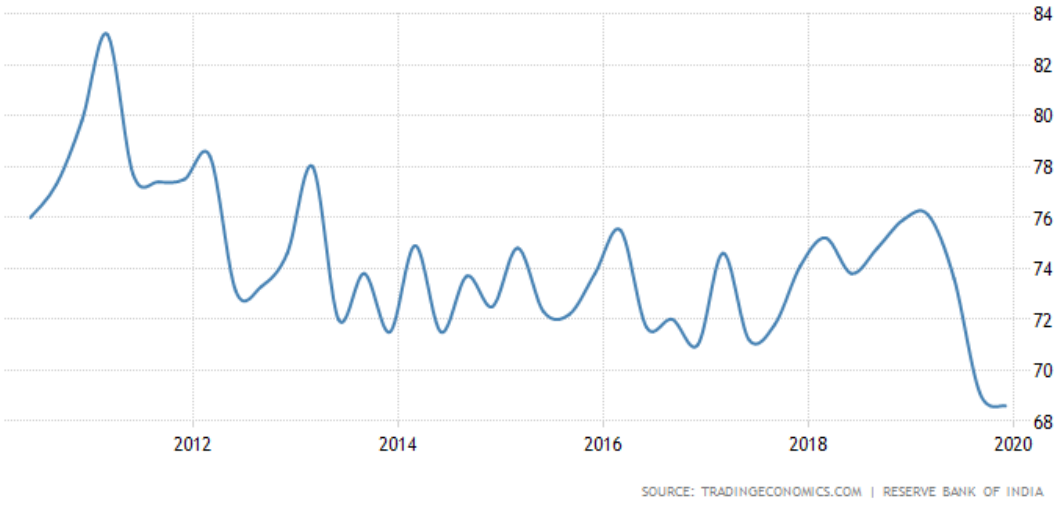
Credit ratio is very important to gauge the demand as well as supply of credit. If there is demand of credit then the ratio goes up. Similarly, if banks feel that the risk factor in the economy is very high, they will be reluctant to lend and consequently, the ratio declines. From Fig:4 it can be seen that there is trend decline in the ratio from 2014 onwards. It saw a rise in the late 2018 and early 2019 but again the growth tapered off in the mid-2019. Since then there is sharp decline in the ratio.

Fig: 4- Credit to deposit ratio of India

So, with the benefit of hindsight it can be said that the economy was facing trend decline in the economic growth even before Covid19. Monetary policy tried to boost the growth by decreasing interest rates but credit off-take has not increased much. It shows that much of India's growth problem is demand induced. This hypothesis is again reinforced by looking at the data of industrial capacity utilization in India. Capacity

utilization ratio is calculated by used capacity divided by total capacity of the industry. It shows how much demand is in the economy. If the ratio is high it means there is high demand in the economy and the industry is utilizing much of its installed capacity. But, if the ratio is low it indicates lack of demand in the economy. Fig: 5 shows India's capacity utilization since 2008 till Dec 2019. If you look at the data you will notice that during 2009-10 the capacity utilization was above 80 (80% capacity utilization is a healthy number for an economy). But after that the ratio has seen trend decline.

Fig: 5- Capacity Utilization of India



Decline in capacity utilization ratio again indicates demand slowdown in the economy. From the Keynesian theory we know that the demand side of the economy mainly consists of; household consumption expenditure, gov. expenditure, investment and net of export. The Indian economy is primarily private consumption driven and it accounts for around 57-58% of total GDP. Fig:6 below is showing the pattern of household consumption expenditure over the past 30 years. We can see that since 2012 the ratio has remained constant. But household debt has increased at exponential rate from 10% to 12.2% of GDP (Fig: 7). This shows that though household personal consumption expenditure to GDP ratio is constant over the years, but household debt has increased. Which indicates that household capacity to boost economic growth has diminished over the years.

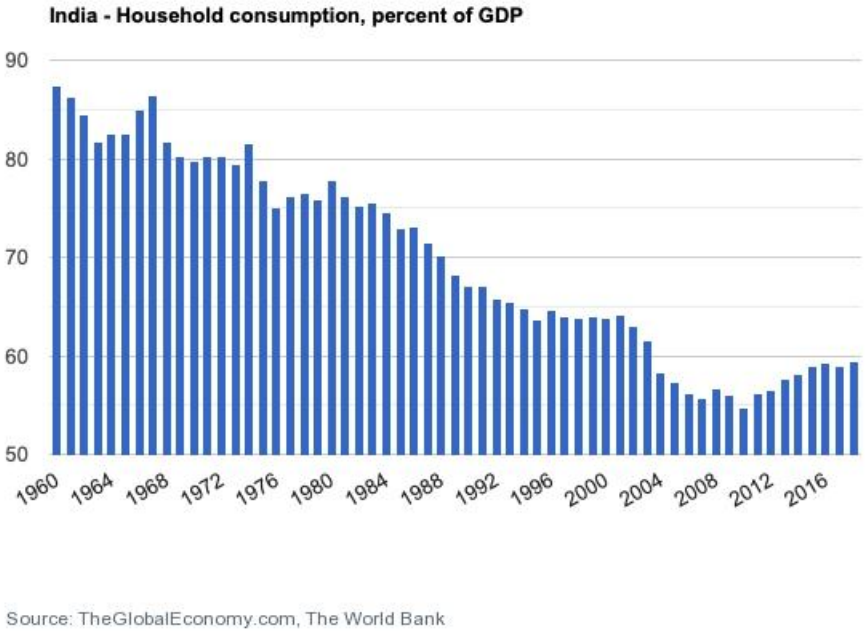


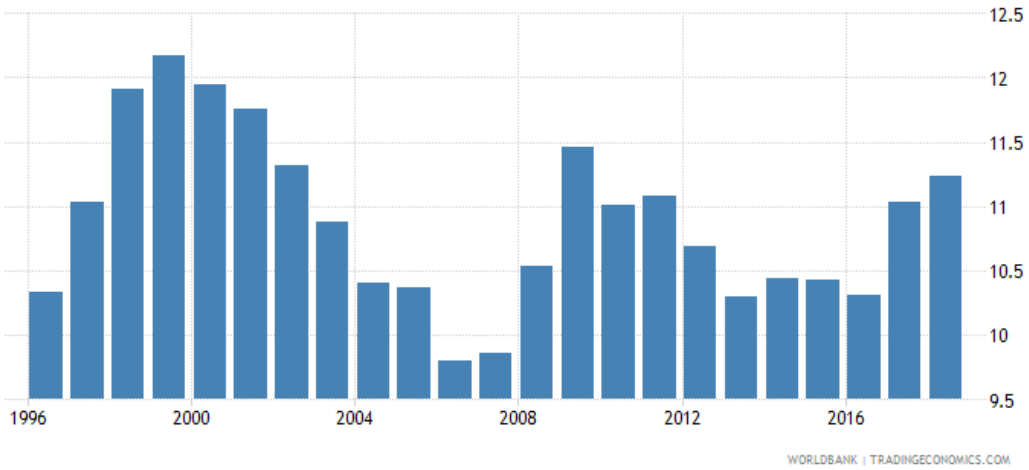
Fig: 6- India's household consumption expenditure to GDP ratio

Fig: 7- India's household debt to GDP ratio

The general government to GDP ratio shown in Fig: 8 indicates that since 2017 government expenditure has increased. Government is spending more to boost the GDP growth.

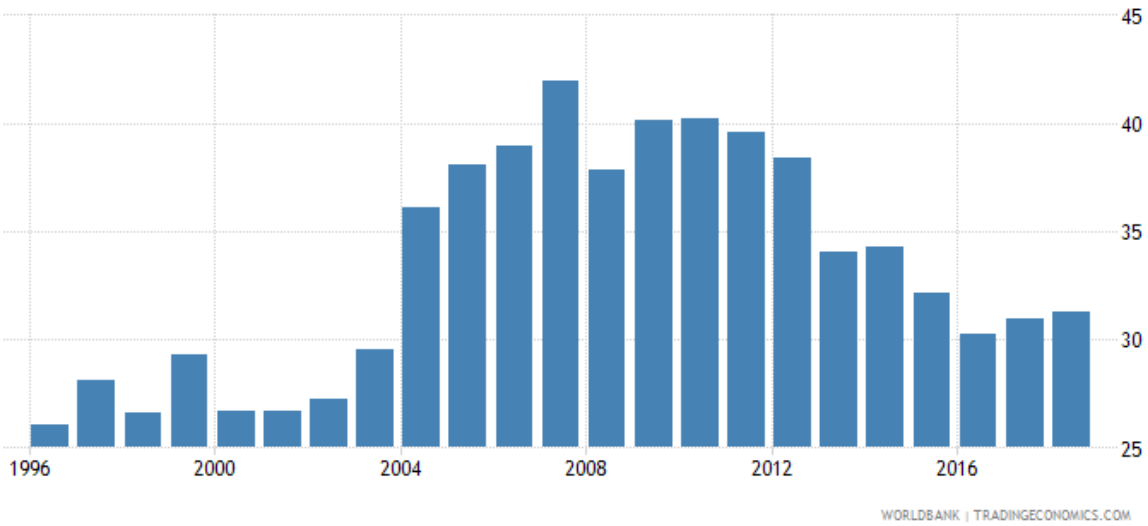
Fig: 8- India's General Government to GDP ratio

If we look at the



investment in the Indian economy, we will notice that it has declined from around 40% in 2012 to around 32% in 2018. The Figure 9 indicates a trend decline in the capital formation. Which shows that capacity formation in the economy has come down and it again reinforces the fact that demand side of the economy is facing a crisis.

Fig: 9- India's Gross Capital Formation to GDP



This trend decline in the capital formation must be seen along with the low capacity utilization as shown in Fig: 5. Since there is no demand in the economy (low capacity utilization) there is low credit demand (deceasing credit to deposit ratio; Fig: 4) which has led to low gross capital formation in the economy (Fig: 9). In light of the above analysis of the Indian economy. Please write short essays on the following topics.

B1) Why the monetary policy has not been able to boost India's economic growth? (10 Marks).

B2) Is the economy facing an inflationary or recessionary output gap? In view of the above, suggest policy changes to bring back the economy to a high growth rate post-Covid19? (10 Marks).