Macro Economics for Decision Making
Subject Code DM 204
Batch 2013-15
Trimester II; End Term Examination, Dec-2013

Maximum marks: 50

Time allotted: 2.5 Hours

Roll No. ______________

Instructions: Students are required to write their Roll No. on every page of the question paper. Writing anything except the Roll No. will be treated as **unfair means**. In case of rough work please use answer sheet

Section A: Please attempt any three out of the five given questions (5 marks each)

1. What is the difference between Real GDP and Nominal GDP? Which measure is important for estimating changes in standard of living and why?
2. Taxes and transfer payments act as automatic stabilizers for the economy. Discuss.
3. What are the factors which directly impact investment levels in an economy
4. How does the banking system as a whole create credit? Explain the concept in the case of an individual opening an account in Bank of Baroda with Rs.100000 and average MPS is 25 percent.
5. What will be the additional loan-able funds available with Syndicate Bank in case it is required to sell T-Bills worth Rs.10000 crores assuming that all commercial banks are supposed to maintain net 30 percent of deposit? Explain the concept with the said background.

Section B: Please attempt any two out of the three given questions: (10 marks each)

1. Why does an increase in autonomous spending lead to a greater increase in GDP?
2. While Export is considered as an exogenous factor, imports are an endogenous factor. Why. Also, discuss the impact of these on the multiplier
3. What do you understand by GDP? Discuss the expenditure method of calculating GDP.

Section C: Case Study [Compulsory] [15 marks]

During the last couple of years Indian rupee has been continuously getting depreciated with rate of exchange reaching 1$=Rs.68.9 in August 2013 as against 1$=Rs.45 two years back. However, the trend got reversed since September 2013 with rupee started getting appreciated. It reached around 1$=Rs.62.5 on 20th November 2013. However, rupee got depreciated again to 1$=Rs.63 on 21st November. But it got appreciated again to 1$=Rs.62.5 on 25th November 2013.

Foreign institutional investors [FIIs] have become major players in Indian market having invested $130 billion since 1993. However, FIIs have been the net sellers during the last couple of years due to factors such as Indian market being considered not investment friendly as well as dismal economic performance of their home economies such as US and European Union. During July-August alone, net outflow of FII was Rs.226,390 million. However, the trend got reversed since September, FIIs having invested net Rs.333,910 million up to the third week of November.

With fears of liquidity squeeze in case US Federal Reserve cutting monthly bond purchases, again FIIs turned net sellers on 21st November 2013 weakening rupee to 1$= Rs 63. However, rupee got reversed by 26th November to 1$=62.5 due to inflow of FII as a consequence of Iran agreeing to halt nuclear enrichment.

You are required to analyze the above situation particularly in terms of:

[a] Relationship between foreign investment and rates of exchange; and

[b] Likely impact of fluctuation in rates of exchange on economy especially trade and GDP.

It is needless to mention that your analysis should be based on the related theoretical framework.

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