PGDM, Batch 2014-16
Macro Economics for Decision Making
Subject Code DM 203

Trimester II; End Term Examination

Time allowed: 2.5 Hours | Maximum Marks: 50

Roll No. ____________

Instruction: 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 following five questions (5 marks each)

1. What are the limitations of GDP computation
2. A country's exports are dependent on other countries' GDP and disposable income. Discuss.
3. What is the total deposit expected to be created in the country's banking system as a whole when you initially credit Rs.25000 in your bank account-assuming the prevailing reserve ratio at 25 percent.
4. Briefly explain how interest rate is determined.
5. Explain impact of rates of exchange over trade relations between countries.

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

1. What do you understand by the demand multiplier? Discuss.
2. How would GDP be impacted by a reduction in investment spending and a boom in neighbouring economies?
3. Discuss how the Government can close a recessionary gap through an expansionary fiscal policy and vice versa.

Section C: Case study [15 marks]

During the last three years Indian economy has been showing dismal performance with below 5.0 percent growth rate. Real GDP growth rate got decelerated to 5.3 percent during the second quarter of 2014-15 as against 5.7 percent in the first quarter of the year.

Index of Industrial Production [IIP] has been continuously getting decelerated from 8.2 percent in 2010-11 to 2.9 percent in 2011-12; 1.1 percent in 2012-13 and -0.1 percent in 2013-14.

However, there is a little respite from inflationary pressure with consumer price index [CPI] falling down from 9.4 percent in August 2013 to 5.5 percent in October 2014.Wholesale price index [WPI] has also fallen to 1.77%, a lowest in the last five years.

In the above background, Reserve Bank of India [RBI] came out with Monetary Policy measures on 2nd Decembe,2014. However, RBI has retained its policy rates constant i.e. Repo rate at 8.0%; Bank rate at 9.0%; CRR at 4.0%; and SLR at 22%.

1. Do you agree with RBI monetary policy initiatives? If yes, explain why RBI is right in its approach.
2. If you don't agree, what you should have been the alternative monetary policy measures by RBI? Elaborate how these measures would have worked?