

PGDM, Batch 2015-17
Macroeconomics
Subject Code DM 204
Batch 2015-17
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 five given questions
(5 marks each)**

1. Show how money is created in the banking system. Work out impact of additional deposit of Rs. 5,00,00,000 on cumulative deposit in the banking system as a whole assuming reserve ratio of 25% [Proceed step by step with the relevant formula].
2. Illustrate impact on export of Indian carpet priced at Rs. 2,00,000 and import of US shirt priced at \$ 50 as a consequence of fluctuation in rates of exchange from US \$ 1= Rs. 66 on 13th November to US \$ 1= Rs. 65 on 17th November, 2015.
3. Illustrate through the relevant diagram how bond prices change as a consequence of RBI purchasing T-Bills worth Rs. 1,00,00,000 from all commercial banks assuming that the latter's stock of bonds were worth Rs. 10,00,00,000 prior to this policy initiative..
4. Discuss the factors that affect investment spending
5. Are the following exogenous or endogenous in nature? Why?

[i] Tax revenue

[ii] Tax Rate

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

1. Discuss the impact of change in consumption expenditure on personal disposable income with reference to the multiplier.
2. Exports are considered as exogenous in nature while imports are endogenous in nature. Why? Also, discuss the impact of exports and imports on GDP with reference to the multiplier.
3. Do changes in price level impact GDP? Discuss.

PTO.....

Section C: Compulsory case study [15 marks]

Macroeconomic indicators show a sign of recovery in economic situation. For instance, GDP is expected to show a growth rate of 7.5%, highest in the world as compared to other countries. Rise in indirect tax collection by 36% is a clear signal of improvement in overall economic activities.

Demand for petrol went up by 15% while diesel sales has gone up by 5.6% in October, 2015, highest in the last three years- a definite indicator of increase economic activities. Power consumption also picked up by 9% in October as compared to below 5.0% till August, 2015.

Wholesale price index fell by [-] 3.8% in October, 2015- thus showing a negative trend continuously for the last one year- though there is deceleration in negative trend from [-] 5.1% in August '15. However, food inflation has been pinching common persons with 85.7% rise in onion price where as pulses prices went up by 53%. Consumer price index which matters to ordinary people increased by 4.4% in September '15 as compared 3.7% in the previous month.

India's exports declined by [-]24.3% in September '15 which was highest fall during the previous ten months. This was in view of slowdown in global economic growth.

As per the rate of exchange, there has been fluctuation from \$ 1=Rs.55 in January, 2013 to \$1=Rs.68 in October, 2014; \$ 1= Rs.66 in mid-November '15 and \$ 1= Rs. 65 in the third week of November, '15.

You may also re-collect the fact that FII's from being net buyers at Rs.22,230 crores in January, 2013 ended up as net sellers at [-] Rs. 4,042 crores in September, 2015. In fact, net outflow of FII at Rs. 14,212 crores during 2015 till October is the highest in the last seven years.

Analysis

In view of the above economic situation in terms of [i] sign of recovery in economy; [ii] deflation in terms of WPI but high food inflation; [iii] falling exports and its likely impact on GDP; [iv] fluctuations in rate of exchange and likely impact on external trade; and [v] attitude of FIIs what would you suggest to:

1. The Finance Minister Mr. Arun Jaitley how he is supposed to frame the fiscal policy when he presents his budget on February 28, 2016?
2. How should the RBI respond in terms of monetary policy?