

PGDM, Batch 2016-18  
Macroeconomics  
Subject Code DM 203  
Batch 2016-18  
Trimester II; End Term Examination

Time allotted: 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. What are the factors that affect Consumption levels in an economy?
2. What do you understand by the term automatic stabilizers?
3. What is the likely impact of incremental deposit at Rs. 350000 crores from November 09 to November 20,2016 on credit disbursement by the commercial banks- keeping in view the prevailing reserve norm of CRR at 4% and SLR at 20.75% and the RBI's notification on 26<sup>th</sup> November, 2016 according to which 100% of the incremental deposit is to be parked with the central bank?
4. Rate of exchange between US dollar and Indian currency changed from \$ 1=Rs. 66 on October 04,2016 to \$ 1= Rs.69 on November 25,,2016.What is its impact on crude oil imports by India- keeping in view the fact that price of crude oil declined from \$ 50/barrel to \$49/barrel during this period.
5. One of the reasons for currency shortage in the post-demonetization is people holding back money without using it for daily transaction. Explain this attitude with an appropriate term in monetary theory.

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

1. Discuss how the Government can close an inflationary gap through a contractionary fiscal policy.
2. Would in your opinion an increase in GDP of the rest of the world impact the GDP of India?
3. While Government expenditure and Investment have the same multiplier, taxes have a different multiplier. Explain.

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

The following facts may help you in understanding the prevailing economic situation and prioritizing policy approach between growth and inflation target.

- It is estimated that GDP growth may get decelerated to around 6.8% as against the earlier estimation of 7.6% due to slow down in economy in the post-demonetization period. It may be re-collected, here, that real GDP growth rate got decelerated to 7.1% during the first quarter of the current fiscal year as compared to 7.9% growth rate in the immediate past quarter.
- The quarter ending September 2016 saw an addition of stalled projects worth Rs. 21000 crore due to lack of funds.
- Incremental deposits with commercial banks have gone up by over Rs350000 crore within the first two weeks of demonetization.
- Commercial banks are expected to park 100% of the incremental deposits since September 30, 2016 as per the RBI notification dated November 26, 2016.
- There seems respite from inflationary pressure with CPI decelerating to 4.2% in October, 2016 from 6.7% in July, 2016.
- Implementation of the Seventh Pay Commission Report which recommended 23.5% pay hike benefited 4.7 million government employees and 5.2 million pensioners. This has resulted in the system getting pumped in with huge amount of money.
- Depreciation of Indian currency from \$1=Rs.66 to \$ 1=Rs. 69 during October first week to mid-November is a clear sign of FIIs withdrawing from Indian market. With the expected hike in Federal rate in mid-December there is likelihood of further outflow of FIIs.

[i] What do you make out with the above facts? What would be the likely economic situation, in terms of growth prospects and inflation, in immediate future and long-term?

[ii] What do you anticipate with regard to interest rate and likely impact on investment expenditure and real GDP

[iii] What is the likely impact on rate of exchange, exports and GDP?

[iv] What should be the target of fiscal and monetary policy initiatives?

[v] Between the Finance Minister and the RBI governor on whom you would like bet in terms of effective policy prescriptions? Put up your argument with the support of appropriate theory.