PGDM, Batch 2017-19
Macroeconomics
Subject Code DM 204
Batch 2017-19
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. What is the additional deposit going to be created in the banking system as a whole as a result of your decision to deposit of Rs.10000 in your savings bank account at Union Bank of India's Knowledge Park branch? You may be aware that banks are required to maintain 4% of incremental deposit as CRR and another 19.5% to be invested in government approved bonds.
2. Rate of exchange got fluctuated from $1=Rs.64.0 in the end-October to $1=Rs.64.6 on 27th November,2017 while price of Indian shirt at Rs. 2000 and US manufactured smart phone at $500 remained the same during this period. What do you make out of likely changes in trade relations between US and India?
3. Reserve Bank of India pumped in Rs.57000 crores into the banking system by cutting down SLR from 20% to 19.5% through the monetary policy statement issued on 4th October, 2017. Analyse its impact in terms of appropriate monetary policy measure.
4. Discuss the factors that affect Consumption spending.
5. Automatic stabilizers help reduce the effect of a business cycle. Enumerate.

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

1. Are exports and imports exogenous or endogenous factors? Discuss the factors that affect exports and imports.
2. Can a recessionary gap be closed through fiscal policy tools? If yes how?
3. Discuss the factors that reduce the effect of the multiplier and why?

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Section C: Case Study [Compulsory: 15 marks]

Analyse the state of current economic situation and challenges before the policy makers after going through the following facts:

- Real GDP growth rate got decelerated to 5.7% during the first quarter of 2017-18 from 6.1% in the immediate previous quarter mainly due to demonetization resulting in fall in consumption expenditure as well as dismal export performance with poor economic performance by India's major markets. It is expected that annual real GDP growth rate is likely to be between 6.7% and 7.0% during 2017-18 as against annual growth rate of 7.1% in 2016-17 and 7.6% in 2015-16.
- The latest assessment by the World Trade Organization indicates a significant improvement in global trade in 2017. Among the advanced economies, the US has continued to expand with GDP growing at its strongest pace in more than two years. In the Euro area, the economic recovery gained further traction. The Japanese economy continued on a path of healthy expansion. [It may be re-collected that these are our major export destinations supporting more than one-third of total exports].
- Core sector growth hit a six-months high at 5.2% in September, 2017 as against 4.4% in August, 2.6% in July, and 1.0% in June.
- The wholesale Price Index [WPI] based inflation eased to 2.6% in September as prices of food articles moderated. WPI had gone up by 3.24% in August, 2017-four months high. Consumer Price Index [CPI] based inflation remained constant at 3.28% in September as in the month of August. As per the Reserve Bank of India, CPI inflation is likely to be in the range of 4.2-4.6 percent in the second half of the current fiscal year.
- Foreign exchange reserves crossed $400 billion mark for the first time on September 08, 2017. With over $401 billion foreign exchange reserves, India can comfortably fund more than one year's import requirements. However, current account deficit at 2.4% of GDP –highest in the last four years- may dampen accretion of reserves.
- Foreign portfolio investment [FPI] started falling from Rs. 33000 crore in March and turned out net sellers at [-] Rs.10759 crore in September. However, they have come back to Indian market since October and have become net buyers. Their net buying at Rs. 16510 crore was the highest since March. However, Federal Reserve is expected to hike its policy rate at its meeting on December 12-13, 2017.

The above facts may help you in analysing challenges before the policy authorities in terms of: [i] Priorities between inflation control and growth; [ii] Flow of foreign capital and impact on rate of exchange which in turn, on trade and growth; [iii] Overall growth prospects.

1. **Do you think that RBI was right in adhering to its policy rate at 6.0% when the Monetary Policy Committee at its meeting on October 04, 2017- despite slowdown in economy at 5.7% during the first quarter of 2017-18?**
2. **What do you think of the recently announced fiscal stimulus by the central government to the tune of Rs. 10,00,000 crore including infrastructure program and bank re-capitalization [Rs.2,11,000 crore of which, Rs. 1,75,000 crore through government bonds to be subscribed by cash-rich PSUs]?** 12