

PGDM, Batch 2018-20
Macroeconomics
Subject Code DM 204
Batch 2018-20
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. How do you think interest rates affect aggregate demand?
2. What are the factors that impact net exports of a country?
3. International crude oil price got softened at around \$60 per barrel by the end of November, 2018 as compared to \$86 per barrel a month back. During this period, rate of exchange between Indian currency and US dollar got fluctuated from 1\$=Rs.85.6 [October end] to 1\$=Rs. 69.80 [November end]. What does it mean to India?
4. Scheduled commercial banks reported aggregate deposits of Rs. 117993 billion at the end of the second quarter of the current fiscal year. What is the credit the banks are capable of disbursing at the current reserve ratio [which you are expected to know]? What would be the likely impact on availability of bank credit if RBI goes ahead by bringing down CRR by 1.0% in the next Monetary Policy Committee meeting as reported?
5. By depositing additional amount of Rs. 5000 into your account in Greater Noida branch of Bank of India, how you would be impacting the total deposits with the entire banking system-keeping in view the current reserve ratio?

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

1. How is the size of the multiplier related to marginal propensity to consume and Investment levels?
2. Do price level changes impact the GDP of an economy? Also, derive the aggregate demand curve.
3. Can changes in fiscal policy measures bring about a change in GDP? Discuss with the help of graphs.

Section C: Case Study [15 marks]

The following macroeconomic indicators give broad idea about the prevailing state of the economy. Analyse the situation carefully and decide what should be the priority in terms of

policy approach as per your own perception. However, policy prescription should be backed by appropriate macroeconomic theory.

- GDP growth rate got decelerated to 7.1% during the second quarter of 2018-19 as compared 8.2% growth witnessed during the first quarter which was considered a respectable jump from 5.7% growth seen during the same period of the last fiscal year. World Bank expects India to grow at 7.3% during 2018-19.
- Among the major segments of the economy, growth in the manufacturing sector got decelerated to 7.4% from 13.5% while agriculture sector got decelerated to 3.8% from 5.3%. However, buoyed by rise in domestic and foreign demand factory activity picked up since then going by the Nikkei Manufacturing Purchasing Managers' Index.
- Gross capital formation as percent of GDP, a broad indicator of investment climate and growth prospects declined from 34.71% in 2012-13 to 28.45% in 2017-18.
- Currency in circulation at Rs.20.1 lakh crore as on 23rd November, 2018 showed a fall by Rs.11365 crore.
- However, the latest data on overall bank credit indicates jump of 14.41%, the highest increase during the last five years.
- Indian currency got appreciated at 1\$=Rs. 69.85 as on 30th November 2018 as compared to rate of exchange at 1\$=73.96 a month back.
- Retail inflation rate at 3.31% in October, 2018 was the lowest during the previous 13 months and as compared to 5.02% inflation in January, 2018. It may be re-collected here, that RBI's target inflation rate is 4.0%-4.5% -which is the major influencing factor while formulating the monetary policy approach. It is also worth remembering that variable component of employees' compensation is calculated on the basis of CPI for industrial workers. Employees' compensation is one of the four major components of cost of production.
- However, wholesale inflation rate at 5.28% in October, 2018 was the highest in the previous four months.
- Crude oil price in international market has fallen from \$86/barrel in the first week of October to \$65/barrel by November end. A variation of crude oil price by 1\$ means change in India's import bill by Rs.6158 crore. In addition, fluctuation in rate of exchange by one rupee against dollar means variation in oil import bill by around Rs. 6600 crore.
- Foreign Institutional Investors turned positive towards India being net buyers at Rs. 5238 crore in November 2018 as against net selling of shares worth Rs. 27600 crore in October 2018 and Rs. 44800 crore during April-October 2018.
- In the above context, it may also be kept in mind that Federal Reserve has maintained its policy rate unchanged at its meeting held in the second week of November 2018-though Federal rate got hiked thrice during the current year and expected one more hike in December 2018. The new Chairman indicated a softer approach as against aggressive reversal of quantitative easing approach by the previous chairperson.

In your opinion how should RBI respond to the prevailing economic situation-keeping in view the above macroeconomic indicators?

[Note: The students who comment on decisions by the Monetary Policy Committee of the RBI at its meeting in December first week will be appropriately acknowledged].