K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,

Vidyavihar, Mumbai- 400077

Program: *PGDM-Exec MBA (Batch2018-19), Trimester-II*

Subject: Economic Environment Of Business

(End Term Examination)

Maximum Marks: 50   **Duration: 3 hours**   **March 11ᵗʰ 2019**

Note : Answer <u>any Five</u> of the following. All questions carry equal marks.

1a) An economy is characterized by the following equations:
C (consumption) = 60+ 0.9Yd
I (Investment) = 10
G (Government Expenditure) = 10
T Taxes)=0
X (Exports)= 20
M (Imports)= 10+0.05Y
Calculate the equilibrium income
What is the trade balance?
b) Is real GDP a good measure of economic welfare?

2a) Explain various indexes used to measure inflation

b) Examine the impact of change in price level on aggregate demand as the sum of four categories of spending, that is, C + I + G + NX.

3a) A In the classical aggregate supply curve model, the economy is always at the full-employment level of output and the unemployment rate is always zero." Comment on this statement.
b)"In the classical AS-curve case, an increase in government spending will increase interest rates and real money balances." Explain.

4) Examine the final integration of the goods and the money market in the Keynesian Macro Economic model.

5a) Explain the main instruments of Monetary policy that can be adopted to control inflation.

b) What is liquidity trap? How does it make the expansionary monetary policy ineffective in reviving the economy from depression?

6 Write a short note on the following:
Crowding out effect of government spending
Role of automatic stabilisers

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