

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,
Vidyavihar, Mumbai- 400077

Program: PGDM – A & B (Batch2016-18), Sem-II
Subject: Macro Economics
(End-term exam)

Maximum Marks: 50

Duration: 2.30 hours

Date: 28/12/16

Instructions:

1. All questions are compulsory.

QUESTION 1: Solve any two of the following **10Marks**

1. The following relationship is specified for the economy
 $C = 80 + 0.75Y_d$
 $Y_d = Y - T$
 $I = 300 - 200i$
 $T = G = 30$
 $M_t = 0.30Y$
 $M_s = 150 - 300i$
 $MS = 270$
 - a. Find the IS equation
 - b. Find the LM equation
 - c. Find out equilibrium income
2. Given the saving function $S = -60 + 0.25Y$ and investment, $I = \text{Rs } 200$ crore
 - a. Find out the Equilibrium level of income & Consumption.
 - b. With increase in investment by Rs. 50 crores, what will be New equilibrium income, Consumption & saving?
3. From the following data of Union budget for the year 2010-11 for XYZ country find out Revenue receipts, Capital receipts, revenue expenditure, Capital

expenditure, Revenue deficit, Fiscal deficit and Primary deficit.

Items	Rs. Crore
Tax revenue	1,46,209
Non – tax revenue	57,464
Recoveries of loan	13,539
Other capital receipts	10,000
Borrowings and other liabilities	1,11,275
Non plan expenditure	
On Revenue account of which	2,28,768
Interest payment	1,01,266
On capital account	21,619
Plan expenditure	
On Revenue account	52,330
On Capital account	35,770

QUESTION 2: Answer any Five of the followings:

20 Marks

- True or False: “With a decrease in Marginal Propensity to Save (MPS), the IS-curve will become steeper”. Explain
- Explain any two impacts on anticipatory and un-anticipatory inflation each on the economy.
- True or False: “Since the long-run AS-curve is vertical, we can conclude that the total real output of a nation cannot grow in the long run”. Explain.
- What do you understand by the concept “Crowding out”? How does fiscal deficit may lead to crowding out?
- What do you understand by “Direct” and “Indirect” taxes? Should government focus more on direct or indirect taxes to earn revenue? Why?

- f. Answer in each transaction whether GDP will be change or not along with the explanation.
1. Your grandfather sells an old Rolls Royce at a premium price.
 2. Maruti Udyog Ltd. Buys back its own shares to consolidate its finances.
 3. Your aunt buys a new car from her pension funds.
 4. HUL increases its inventory.

QUESTION 3: Answer any one the following: 10 Marks

- a. Explain the concepts of Revenue deficit, Fiscal deficit and Primary deficit. Explain the relevance of fiscal deficit with regard to GDP growth, private investments, exchange rate, inflation, inequality and current account balance.
- b. Explain the concepts of inflation, deflation and stagflation. What type of fiscal and monetary policy tools can be used to control inflation? Will they be effective enough to control stagflation? Explain your answer.
- c. Explain how a foreign exchange rate gets determined in the short run and in the long run. How will it get affected by
 - 1) Higher inflation in India, 2) Higher rates of interest in India, 3) Higher GDP growth abroad

Question 4: Write answer on any Two of the following 10 Marks

- a. What are the limitations of Keynesian multiplier in a developing country like India?
- b. What is the difference between Frictional and Cyclical unemployment? In which case do you think that the impact of government policies will be more effective?
- c. Explain few reasons behind financial collapse of US economy during 2008-09 leading to fall in real economy from the documentary “Inside Job”.
- d. What do you understand by currency convertibility? What can be possible repercussions of capital account convertibility for India?

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