

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

**Vidyavihar, Mumbai- 400077**

**Program: PGDMExec (Batch2017-18), TRIM-II**

**Subject: Economic Environment of Business**

**(End Term Examination)**

Maximum Marks: 50

Date : 28<sup>th</sup> March 2018

Duration: 3hrs

**Instructions**

Attempt **any five** of the following

All questions carry equal marks

1. An economy is characterised by the following equations:

$$\text{Consumption (C)} = 60 + 0.9Y_d$$

$$\text{Investment (I)} = 10$$

$$\text{Government expenditure (G)} = 10$$

$$\text{Tax (T)} = 0$$

$$\text{Exports (x)} = 20$$

$$\text{Imports (M)} = 10 + 0.05Y$$

i) what is the equilibrium income

ii) Calculate the trade balance.

**2a.** Examine the impact of a rise in price level on aggregate demand as the sum of four categories of spending, that is,  $C + I + G + NX$ .

**b.** Explain the various indexes used to measure inflation

**3a.** Why the AD-curve is downward sloping?

**b.** "In the classical AS-curve case, an increase in government spending will increase interest rates and real money balances." Comment on this statement.

**4.** Diagrammatically explain the Keynesian macro economic model of final integration of the money and the goods market through the channel of the rate of interest.

5. An expansionary Fiscal policy should be backed by an expansionary Monetary Policy". Examine this statement in reviving the economy from recession.

6. Illustrate diagrammatically and explain the mechanism through which tight monetary policy works to check inflation.

7. Write a short note on **any two** of the following

a) The importance of and leakages in the multiplier process

b) The concept of liquidity trap.

c) The relevance of supply side economics

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