

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

**Vidyavihar, Mumbai- 400077**

**Program: PGDM-Exec (Batch2016-17), TRI-II**

**Subject: Economic Environment of Business**

**(End Term Examination)**

**Maximum Marks: 50**

**Date: 21<sup>st</sup> March 2017**

**Duration: 3 hrs**

**Instructions**

Attempt **any five** of the following

All questions carry equal marks

1a) Suppose the level of autonomous investment in an economy is 200 crores. The following saving function is given:

$$S = -80 + 0.25Y$$

Find the equilibrium level of income.

b) Examine the uses and limitations of Multiplier.

2a) How does the Keynesian aggregate supply curve differ from the classical one keeping in mind the time horizon?

b) Supply-side economics makes the claim that reducing tax rates generates very large increases in aggregate supply. Explain.

3. Explain how Keynes links money market with goods market. What are its policy implications?

4. "Monetary policy for its success depends on fiscal policy". Critically examine this statement.

5. What is meant by crowding out effect? Show how the expansionary effect of fiscal policy is reduced by the crowding out effect.

6. With the help of IS-LM Model examine the impact on the following:

a) Impact of increase in government expenditure on interest rate and income

b) Effect of cut in taxes.

7. Illustrate diagrammatically the mechanism through which tight monetary policy works to check inflation.