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Program: PGDM - IB (Batch2018-20), Trimester-II
Subject: Macro Economics
(End Term Examination)

Maximum Marks: 50 Marks
Duration: 3 hours

Date: 10-01-2019

Instructions

Attempt any five of the following questions.

Q 1. The addition of the foreign sector to the three sector model changes the structure of the model and of the circular flows. Explain (10)

Q 2. (a) Explain the determination of equilibrium level of income and output in a two sector model. (5)

(b) Calculate (i) the national income and (ii) personal disposable income from the following information

(5)

GDP mp	7000
Receipts of factor income from rest of the world	250
Payments of factor income to the rest of the world	350
Depreciation	1000
Indirect taxes-subsidies	500
Corporate profits	1200
Dividend	600
Transfer payments	1300
Personal taxes	1500

Q 3. (a) What is an investment multiplier? Explain the leakages in multiplier . (5)

(b) Suppose the level of autonomous Investment in an economy is Rs 200 crores and the consumption function is $100+0.5Y$ (5)

(i) What will be the equilibrium level of income and consumption?

(ii) What will be the increase in national income if investment increases by Rs 50 crores

Q 4. Using IS-LM model explain the interaction of goods and money market to determine the short –run equilibrium level of national income and rate of interest. (10)

Q 5. What is monetary policy? Explain how the different instruments of monetary policy can cure the recession and help in the revival of an economy (10)

Q 6. Venezuelan inflation approaches 150,000%

Venezuelan President Nicolas Maduro's most-recent attempt to stop his country's massive inflation problems is failing, at least according to one measure. The Bloomberg Café Con Leche Index, which gauges Venezuela's inflation through the price of a cup of coffee, showed an annual inflation rate of 149,900 percent after its latest reading. The staggering inflation print comes after the Venezuelan government issued a new currency, the "sovereign bolivar." One sovereign bolivar was worth 100,000 "old" bolivars. The purpose of the new currency was to normalize day-to-day transactions. The new currency is also pegged to illegal. These efforts initially helped as the sovereign bolivar held in a range between 95 and 115 per U.S. dollar, Bloomberg reported citing data from Monitor Dolar. On Monday, however, the bolivar traded at 276.53 per dollar, Monitor Dolar data showed. Venezuela's troubles come as the country with the biggest oil reserves in the world deals with an ongoing humanitarian crisis. Venezuela faces shortages of food, medicine and other basic goods. Venezuela's inflation is expected to keep spiraling out of control, too. The International Monetary Fund said in June it expected inflation in Venezuela to hit 1 million percent in 2018, noting the country is "stuck in a profound economic and social crisis."

Source CNBC News

- a) What type of inflation is being referred to in the article? (2)
- b) From the article above what do you think is the main reason for inflation? Discuss two other reasons for inflation in a country. (4)
- c) Suggest two ways of controlling inflation in the economy of a country (4)