

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

**Program: PGDM –IB, FS & Comm & (Batch2017-19), Trim II
Subject: Macro Economics
(End Term Exam)**

Maximum Marks: 50

Duration: 3 hours

Date: 26th December, 17

Notes: Question 1 is compulsory. Solve any four from Q 2 to Q 6.

QUESTION I: Answer any two) 10 Marks

- a. True or False: Explain
 1. In an economy, savings are withdrawals and investments are injections, thus savings are always bad for the growth.
 2. In an open economy Imports bring out leakages in multiplier model. True or False.
- b. What is the difference between quantitative and qualitative tools of monetary policy? Explain with one example of each.
- c. What is the most prominent and constant component of aggregate demand/ GDP? With increase in Government expenditure, LM curve shift outwards. True or False. Explain.
- d. What is the difference between Revenue Deficit, Fiscal Deficit and Primary Deficit?

QUESTION II: 10 Marks

- a. Which of the following indicators is the real indicator of economic development and why?
Marks 2
 1. GDP at current process 2. GDP at constant process
 3. GDP per capita at current prices 4. GDP per capita at constant prices
- b. What are the main limitations of GDP as an indicator of development of the country? Give example of any two social indicators of development which overcome these limitations. 3 Marks

- c. Find out Nominal GDP, Real GDP, GDP Deflator and Inflation rate in each year using 2014 as base year. 5 Marks

	2014		2015		2016	
	P	Qty	P	Qty	P	Qty
Good X	65	550	75	800	80	950
Good Y	90	250	110	270	110	300

QUESTION III:

10 Marks

- a. Explain the concept of Government expenditure multiplier. How is it related to Marginal Propensity to Consume? 2 Marks
- b. What are the limitations of the multiplier theory for a developing country like India? 3 Marks
- c. Given the saving function $S = -20 + 0.4Y$ and autonomous investment, $I = \text{Rs } 80$ crore
1. Find out the equilibrium level of income & level of consumption.
 2. With increase in investment by Rs. 10 crores, what will be new equilibrium income & consumption?
 3. If original investment remains Rs. 80 crore and the income needs to be raised to increase to Rs. 700 crore (near full employment level), how much investment government should make. 5 Marks

QUESTION IV:

10 Marks

- a. Frictional unemployment has a desirable effect on the economic growth. True or False – Explain. 2 Marks
- b. Explain the difference between direct and indirect tax with the example of each. With economic development, in which direction your tax composition should change? Why? 3 Marks
- c. 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. 5 Marks

Items	Rs. Crore
Tax revenue	1,60,209
Non – tax revenue	65,250
Recoveries of loan	20,539
Other capital receipts	13,000
Borrowings and other liabilities	1,35,400
Non plan expenditure	
On Revenue account of which	2,57,550
Of which Interest payment	1,22,360
On capital account	35,622
Plan expenditure	
On Revenue account	57,460
On Capital account	53,770

QUESTION V:

10 Marks

- a. If country A has a higher rate of interest and is attracting more capital inflow from abroad than other countries, how will their exchange rate get affected? Explain.

2 Marks

- b. Give two arguments for and two arguments against Fixed and Floating exchange rate.

3 Marks

- c. Fill in the missing figures from the balance of payments account for Country XYZ given below: 5 Marks

	Credits (+), Debit (-)	Rs. M (2015-16)
	Current account	
1	Exports of goods	-----
2	Imports of goods	-560
3	<i>Balance of trade in goods</i>	-70
4	Exports of services	320
5	Imports of services	-190
6	<i>Balance of trade in services</i>	-----
7	Income receipts (investment income)	230
8	Income payments (investment income)	-----
9	Net income receipts (investment income)	35
10	Current transfers (net)	-65
11	<i>Net income flows</i>	-----
12	Current account balance	-----
	Capital account	
13	Capital account transactions (net)	-10
	Financial account	
14	Direct investment, net	75
15	Portfolio investment, net	-55
16	Reserve assets funding	-35
17	Errors and omissions	-5
18	Capital and financial account balance	-----

QUESTION VI: (Any Two)

10 Marks

- a. What do you understand by the concept “Crowding out”? How does it take place?
- b. What do you understand by ‘Liquidity trap’? Which type of policy will be more effective in such situation? Why?
- c. Explain the concept of Stagflation with the help of impact of anticipatory inflation. Why is it considered to be difficult to tackle?

-----End of Paper-----