

MBA (FT)

A

Paper F-203— ECONOMIC ENVIRONMENT OF BUSINESS

Time : 3 hours

Maximum Marks : 70

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt any five questions. All questions carry equal marks.

Question 1

- a) Your country is in recession. You feel that a policy of exchange rate depreciation will stimulate aggregate demand and bring the country out of recession.
- What can be done to trigger this depreciation?
 - How might other countries react?

When would this be a beggar-thy-neighbour policy?

- b) Assume that capital is perfectly mobile, the price level is fixed, and the exchange rate is flexible. Now let the government increase purchases. Explain what effect this will have on equilibrium interest and output. Also show whether the current account improves or worsens as a result of increased government purchases of goods and services.

Question 2

“Economists are often faced with a perplexing dilemma - the co-existence of inflation and unemployment. Under such circumstances it is argued that demand management policies are ineffective in stabilizing the modern mixed economy. Hence the shift of emphasis is on supply management”.

Critically analyze the above statement.

Question 3

Suppose that economy were initially in equilibrium at E. Thereafter, the IS shifts to the right and a new equilibrium is established at E₁. Explain how the new equilibrium is actually

reached? Does the adjustment involve changes in both the interest rate and the level of income? While explaining the process, explicitly make use of the following two assumptions:

1. Output increases whenever there is excess demand, and
2. The interest rate rises whenever there is excess demand for money.

Further, does the shape of the LM curve determine the extent of this multiplier? Can it ever happen that despite a rightward shift in the IS curve, equilibrium income remains unchanged? If yes, how likely is this?

Question 4

- a. An increase of equal size in *transfers* and in *government spending* will shift the IS curve the same distance. Do you agree with the above statement? Why?
- b. Explain the 1st four steps in the chain of Keynesian multiplier to show that multiplier depends on the marginal propensity to consume.

Question 5

What are the various methods of estimating GDP? It is often said that GDP is a good measure of economic well being; however it is not a perfect measure of well-being. Discuss. What steps can the government take to make growth more inclusive?

Question 6

Explain the concept of macroeconomic stabilisation. What necessitated India to adopt these policies in 1991? Explain and evaluate the reform measures undertaken by India (as part of its structural adjustment programme) since 1991.

Question 7

Write notes on:

1. India's recent experience with inflation and measures adopted to control the same
2. Union Budget 2011-12