[This question paper contains 4 printed pages.]

2012 *Your Roll No.* ....

MHROD / II Sem. **A**

Course 624 – BUSINESS ENVIRONMENT

Time : 3 hours *Maximum Marks : 70*

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

Attempt **all** *questions.* **All** *questions carry equal marks.*

1. Attempt the following:
   (i) Why should a manager monitor GDP growth? Explain clearly what GDP growth does and does not signal to the manager.
   (ii) Joseph Stiglitz, the group's chairman of the *Commission on the Measurement of Economic Performance and Social Progress*, has called for alternative ways of measuring welfare. What new criteria given by the Stiglitz Commission in measuring societal wellbeing?

OR

   (i) What are the various components of Aggregate Demand? Why is it important to break them down into C and I and further into private sector, government sector and net external sector demand?
   (ii) What is meant by marginal propensity to consume? What is meant by marginal propensity to save? Explain the role of multiplier in this context.

2. "The point of intersection between IS and LM curve is the point at which the goods and services sector and the money sector are both in equilibrium. GDP = AD (and $I = S$) and the demand for real money balances equals the fixed money supply. There is no tendency for GDP or interest rate to change". Explain this statement and highlight how does IS-LM analysis help us to understand the relationship between the market for goods and services and the money market?

OR

   (a) What do you mean by the following terms: (i) price stability; (ii) an acceptable rate of inflation; and (iii) core inflation.
   (b) What's behind the recent food price rise in India? Why does food inflation persist? How do you justify the statement that 'It is a failure of policy, not high-income growth, which is the culprit'?

3. Discuss fully the role played by *foreign capital* in India's economic development in recent times. In this context would you advocate a policy of encouraging investment by *multi-national corporations* in India? What changes have been made in the government policy to attract foreign capital in India?

OR

What is *goods and services tax (GST)*? What are its merits and demerits? What hurdles are involved in the process of its implementation?

4. 'The *market and state intervention* must go together in the interests of development with equity. There is as much evidence of *market failure* as there is of failure in *state intervention*'. Explain this statement and point out what changes you would suggest in the nature of state intervention at the present levels of India's income and development.

OR

(a) Why is study of the external sector important for understanding fluctuations in aggregate demand and cost variables?
(b) Distinguish between current account and capital account in a country's balance of payments. Why are these terms important?
(c) Which exchange rate system we follow in India today?

5. Carefully study the following passage and attempt the questions given at the end of the passage. Your answer need not necessarily be based on the passage but also on your understanding of the topic.

"A LITTLE BIT OF SAIL IN AIR INDIA'S LIFE

It's a pity that the system of learning through case studies does not exist in government. Why else would it flounder when it comes to cases of reviving loss-making Air India or BSNL, when it has a record of giving a package of as high as R8,000 crore to a public sector undertaking that revived within two years of getting this bailout? This may sound incredible but that's the sum the government provided to its largest steel maker, the Steel Authority of India Ltd (SAIL), in February 2000, when the company posted losses of around R1,500 crore. A few years earlier (1995-96), the same company had posted a net profit of R1,300 crore. Imagine a scenario where a PSU that posted profits of R1,300 crore three years ago slips into making losses of R1 500 crore and runs to the government for a relief package. What would the latter do? The probable options are: set up a committee to look into ways of reviving it, hire a private sector CEO to turn the PSU around, fill its board with independent directors from the private sector to run it along commercial lines, ask it to cut costs without giving it the leeway to hire and fire employees and maybe grant a bailout package of around R2,000-3,000 crore by infusing equity. Most people, whether within or outside the government, should, however, know that none of this will work. It is almost certain that the PSU will squander everything and *come back to the government a few years later for yet another rescue package. And the story will repeat itself at frequent intervals. This is the kind of story that we are seeing play out with Air India today, and BSNL is on course to tell the same. If one delves into history, scores of such examples will.be available. The government's record of reviving companies is dismal and yet it keeps attempting to do this. While most people are cynical about the government's bailout packages, the truly puzzling thing is that it hasn't tried to replicate the revival model that has actually worked. Of course, the case of each PSU will differ in details but there can be broad similarities in principles applied. This brings us to the case of SAIL in February 2000, when the company's losses stood at R1,500 crore and it was saddled with around 1.6 lakh employees. Also, the steel market was down. With the exception of Tata Steel, every other private sector company was also posting losses. If nothing was done to save SAIL, it was clear that the company would not be able to survive. It is then that the government came out with probably the largest-ever bailout package of R8,000 crore, but only with stringent conditions attached. If the company was supposed to hive off certain non-core assets, there was a timeline attached to this. Further, McKinsey had prepared a restructuring plan for the company, which was adhered to. Of the plan's several components, the major ones were breaking the company into strategic business units like flat and long products, and hiving off its non-core plants like Salem Stainless Steel, Alloy Steel Plant, a fertiliser plant and captive power plants. With the company implementing the SBUs and a slight revival in steel markets, SAIL started getting back on track. By 2002, it was back in black and since 2003 the story has been different, so much so that the government plans to come out with SAIL's FPO either this fiscal or the next.*

If one examines the restructuring approach adopted by the government towards Air India, it is quite evident that nobody has done a proper case study of the SAIL turnaround. Today, for all practical purposes, the Air India revival is a lost case with all the key lieutenants hired by the company to reshape it having put in their papers after a series of controversies. The case of BSNL is even sadder because, with proper interventions, it could replicate the SAIL success story. The company was started in 2000 and was doing quite well till 2007, but then started sinking because its procurement process was not in sync with the sector in which it was operating. After slipping into losses, BSNL has just enough money to last a year. This means that it's still not too late for the government to thoroughly examine its case, provide the required support and then attach timelines for achieving set goals. Following the SAIL approach has another advantage. The government signals to the entrenched unions as well as the lobbies who are against privatisation that it has done its bit. But if the company does not revive even after this, the government has no option but to sell it off or close it down. Rather than doing this, the government has come out with a bizarre solution, which it calls disinvestment. Let's be clear that disinvestment, as we are practising it today, cannot revive PSUs. By selling off some 10% stake in the company, all that the government is doing is listing it on the bourses to make its financials transparent, while still controlling the company and its decision-making process. Anyone who thinks listing is the solution should look at loss-making MTNL, which is only 56% owned by the government and even listed on NYSE! Strategic sale (bringing down government stake to 26%) is a better option but it is not politically palatable today. Anyway, since the government knows that *its record of turning around PSUs is dismal, the least it can do before sinking money into them is to do a careful case study of whatever little success it has met. Apply the lessons."* [Source: *The Financial Express*, March 8, 2011].

Question: Do you agree with the view that instead of wasting effort and throwing more money into the state-owned Air India, the government would do well to privatize the airline? A government-owned airline has ceased to be a strategic imperative. The government's focus should be on instituting a strong regulatory body that would keep the skies open and competitive. Give reasons both for and against *privatisation* of Air India.