

Jagan Institute of Management Studies
End-Term Examination, December 2017 – January 2018
Trimester II – PGDM 2017-19

Macroeconomic Management
ET_PG_MEM_2612

Time: 3 Hrs.

M. Marks: 70

INSTRUCTIONS: Attempt any FIVE questions including Q1 & Q7 which are compulsory.

- Q 1** Answer any **FIVE** briefly.
- a) A 2017 report of the World Bank said that India has the lowest female labor participation rates in the world. What is the implication of this factual finding on India's economic growth?
 - b) The number of people aged 65 or older will be over 30% of the total population in 2036 in Hong Kong. How will this influence the composition of consumption spending, investment spending and government spending in Hong Kong in the years to come?
 - c) Philippine's GDP growth is expected to be 7% for the full year 2017. If this materializes and continues in future too, how soon will the country be able to double its current level of GDP?
 - d) Hoover Dam is a concrete arch-gravity dam built on the Colorado River, on the border between the U.S. states of Nevada and Arizona. It was constructed between 1931 and 1936 employing thousands of unemployed workers. This development of infrastructure in the form of hydroelectric power contributed partly in easing the pains of Great Depression in US. Name and explain the underlying phenomenon.
 - e) In 2016, World Bank ranking placed India at 3rd global position in terms of GNI (at PPP) while GNI per capita ranking placed India at 124th global position. Reason out the wide difference in global positioning.
 - f) Show a graphical presentation of the effect of an increase in private investment expenditure on national income using the Keynesian approach to income determination.
 - g) Demonetization and GST have been two significant disruptors in Indian economy in the last one year. Critically comment. **20**

- Q 2** Bill and Melinda Gates run a foundation dedicated to solving world's problems. A report from the foundation published on 13th September, 2017 suggests that the past 15 years have seen spectacular fall in global poverty and ill health but the next 15 years are unlikely to be as good. Experts feel that India, which has about 92 million people in extreme

poverty, should stop wasteful expenditure and other transfers that generally reach the better-off and use this saving to improve the lot of the poor.

- a) Discuss the pressing social ills of India (other than poverty).
- b) Do you agree with the opinion of the experts as mentioned above? Explain.
- c) What have been the implications of poverty reduction schemes like MGNREGA on government deficit and inflation?

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Q 3 Britain's consumer price inflation was 2.9% in August 2017 and reached 3% in October 2017 while food inflation stood at 4.2% in the same month. On the other hand, the average income earnings were increasing at 2.1% while the average earnings growth for public sector workers was 1.4%. Also, food inflation is likely to continue in near future as well.

- a) Explain and contrast the concept of consumer price inflation and food inflation.
- b) Discuss the implications of the said inflation on salaried class and Christmas time sales.
- c) What are the major reasons underlying recent spurt in retail prices of food items in India?

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Q 4 Iceland's central bank has cut interest rates to a two-year low after the boom and bust prone economy registered its worst economic performance since 2014 in the first quarter.

- a) Explain the Classical viewpoint that 'an economic downfall will automatically and eventually lead to recovery?'
- b) How will the rate cut prove to be helpful?

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Q 5 SEBI's Committee on Corporate Governance under chairmanship of Uday Kotak presented a significant report in October 2017. Fourth in the series, the report correctly highlights - Equal access to information and information symmetry is the cornerstone of efficient functioning of any securities market and in addition to sound corporate governance practices, by access to information, shareholders can protect themselves.

- a) In addition to correcting asymmetric information, what are the other reasons that demand regulatory role of the government?
- b) Track the evolution of governmental role in business activities in India over the years.
- c) Give a few examples of support that the business community expects from the Government.

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Q 6 Given below is a table showing average lending rates of major banks in

India, 2010-11 onward.

Year	Lending rate
2010-11	8.25-9.50
2011-12	10.00-10.75
2012-13	9.70-10.25
2013-14	10.00-10.25
2014-15	10.00-10.25
2015-16	9.30-9.70
2016-17	7.75-8.10
2017-18	7.75-8.10

- Comment on the trend in the lending rate and the underlying reasons.
- In its latest bi-monthly monetary policy review, RBI has kept the repo rate unchanged at 6%. Corporate sector is unhappy with this. Why?
- Given the current macro-economic conditions what will be the likely direction of the lending rates?

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Q 7 Read the article given below and answer the questions that follow:

Egypt's Economy: Changing Track

The Egyptian Government is making renewed efforts to reform the economy through privatisation.

The train north from Cairo winds through the lush fields and meandering canals of the Nile Delta, before chugging into Alexandria. The scenery is pleasant on a 180 km journey that drags on for more than four hours. It is slow enough that Egypt Air offers flights on the same route.

Egypt's state-owned, 6,700km rail network, the oldest in Africa, has seen better days, the oldest in Africa, has seen better days. Stations are dingy; trains are dangerous and often delayed. In August 41 people were killed in one collision. It was the deadliest crash since 2012, but smaller ones are common, with over 1,200 last year alone. (Britain's rail network, with three times as many passengers, saw about 750.)

Days after the accident the transport minister said that he would bring in the private sector to improve quality and safety. His ministry is drafting a law to allow private quality and safety. His ministry is drafting a law to allow private firms to run trains and stations. If it passes, it would be the clearest sign yet that Egypt is serious about reforming its top heavy economy.

The state has played an outsized role in business the coup in 1952 that created the modern republic. It ran factories, banks, utilities and even newspaper publishing houses. At one point more than half of Egypt's industrial production and 90% of its banking revenue came from the public sector. The socialised economy helped create an urban

middle class. But by the 1970s it had become bloated and inefficient. Anwar Sadat, then President, had limited success encouraging private investment with his *infitah* (“openness”) policy.

His successor, Hosni Mubarak, oversaw a real shift. In 1991 his government picked 314 public companies to privatize. They employed 1M people and generated more than 60bn Egyptian pounds (then \$21.4bn) in annual revenue, about 15% of GDP. Within ten years the state had sold more than half, including soft-drink bottlers to Coca-Cola and Pepsi, and a cement factory to Lafarge, a French industrial giant. A study in 2002 for the American government found that these early sales increased productivity at little cost to employment.

By the time Egyptians overthrew Mr. Mubarak in 2011, though, privatization had become synonymous with corruption and job losses. Most notorious was Ahmed Ezz, who bought a public steel company and soon cornered the market. Then he became an influential MP. Critics accused Mr. Ezz of using his position to protect a near – monopoly, though the government dismissed two cases against him. In 2006 Mr. Mubarak sold a chain of department stores called Omar Effendi. The shops were crumbling but sat on valuable real estate. The investment ministry valued the chain at 1.1bn pounds (then \$210m). The Saudi buyer paid half that price, and promptly pushed thousands of employees into early retirement. An Egyptian court later over –turned the sale, one of several re-nationalizations that followed the revolution of 2011. The privatization scheme was halted.

Despite forecast GDP growth of 3.5% in 2017, the government badly needs cash. The budget deficit was 10.9% of GDP for the year ending in June, most of which went on paying interest on government debt. So the sale of state assets is set to resume. The government has hired three banks, both local and foreign, to sell part of its stake in ENPPI, an OIL company. That could bring in up to \$150m. It also wants to offload shares in Banque du Caire, the third-largest state-owned bank. It hopes to raise about \$10bn from such sales over the next three years

Last year Egypt allowed its currency to float in order to obtain a \$12bn loan from the IMF. The exchange rate plummeted from around nine to the dollar to nearly 18. Foreign remittances, a big source of hard currency, are up sharply in the local currency. The tourism industry, which once employed more than one in ten Egyptians, is slowly reviving as foreigners snap up cheap hotel bargains. Visitor numbers rose by 54% in the first seven months of 2017, compared with the same period last year, and tourism revenues jumped by 170% (both still far below their 2010 peaks).

No room for complacency

That said, economists reckon much of the recent growth is thanks to

loose fiscal and monetary policy. Government debt has risen to 130% of GDP. The central bank is printing money at an alarming clip to fund the deficit. The broad measure of money supply grew by 389% over the past year, which drove galloping inflation. The official rate is 33%, which probably understates reality, and food prices are rising even faster.

Salaries and pensions have not kept pace. Even the middle classes are struggling. Any attempt to privatize public services would be controversial. The railways raised fares in 2015; Egyptians fear private operators would hike them further.

The companies marked for sale, therefore, are mostly in the banking and energy sectors, which have little direct impact on most Egyptians. The government is offering only minority stakes, limiting buyer's ability to carry out restructuring. It will sell only about a quarter of ENPPI, which is healthy and well-managed, with 19% growth in profits, reaching \$64m last year.

Such sales may help the state's balance-sheet. But they will not fix dismal public infrastructure and hospitals. In June a wealthy animal-lover offered the government 10m pounds to rent Giza's grim zoo, where dead animals have been left to rot in cages, promising major investments. It declined; worried that he might raise the five pound entry fee.

Questions:

- a) Discuss the similarities and dissimilarities of Indian experience with that of Egypt with economic reforms. 7
- b) Compare India's economic growth (FY 2017-18 forecast) with that of Egypt. 3
- c) Compare Indian government's fiscal and primary deficit with that of Egyptian government. 3
- d) Compare inflation scene in India with that in Egypt. 3
- e) Ever since liberalization, the public policy in India is blamed to be not as sensitive to agriculture sector's needs as to that of the industry. Why should agriculture receive the focus it is asking for? 4
