

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA-SEMESTER-II-EXAMINATION- SUMMER-2024**

**Subject Code: 1529505****Date: 12/06/2024****Subject Name: Macro Economic Theory and Policy****Time: 10:30 AM TO 01:30 PM****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

<b>Q.1</b>	<b>Define the following terms:</b>	<b>Marks</b>
<b>a</b>	Importance of Macro Economics	<b>14</b>
<b>b</b>	Personal Disposable Income	
<b>c</b>	Money Multiplier	
<b>d</b>	Fiscal Policy	
<b>e</b>	Marginal Propensity to Consume	
<b>f</b>	HDI	
<b>g</b>	Sustainable development	

- Q.2(a)** Differentiate between micro and macroeconomics. **07**
- Q.2(b)** Following are the data of 'X' economy, where only two commodities are produced. Calculate Real GDP, Nominal GDP and GDP Deflator while taking 2020 as base year. **07**

Year	Price of A	Quant. Of A	Price of B	Quant. Of B
2020	3	150	2	100
2021	4	200	4	150
2023	5	250	6	200

**OR**

- Q.2(b)** 'Inflation is bad but deflation is worse for the economy', explain the statement with reference to economic and social effects of inflation. **07**
- Q.3(a)** Elaborate the credit control policy of RBI and analyse the limitations for the same. **07**
- Q.3(b)** How the rate of unemployment is measured? What are the different kinds of unemployment? **07**

**OR**

- Q.3(a)** Differentiate the short run and long run aggregate supply curve. Can short run aggregate supply curve be shifted? **07**
- Q.3(b)** How the government can influence the aggregate demand to revive the economy from the downturn. Explain. **07**
- Q.4(a)** Describe the Liquidity preference theory of money. **07**
- Q.4(b)** How do you analyse the short run and long run trade-off between inflation and unemployment. **07**

**OR**

- Q.4(a)** Describe Rostow's stages of economic growth with examples. **07**

- Q.4(b)** The economy is in recession.  
Shifting the *AD* curve rightward by \$200b would end the recession.
- A. If  $MPC = .8$  and there is no crowding out, how much should Government increase the expenditure ( $G$ ) to end the recession?
- B. If there is crowding out, will Government need to increase  $G$  more or less than this amount?

**Q.5 Case Study**

In a neighboring country the rate of inflation galloped to 18.8 percent in March 2022 from 15.1 percent in February as the central bank printed money to keep interest rates low and the currency collapsed in a failed float. The Consumer Price Index rose to 164.9 points from 160.1 points. The Country started to experience galloping inflation from around November 2021 after two years of money printing to create a ‘production economy’. The food index rose 30.1 percent over the past year and 42.2 percent from December 2019 after which so-called Modern Monetary Theory began. Meanwhile the rupee fell from 203 to 300 to the US dollar after an attempt to float it while having a surrender requirement and low interest rates. The Country had a soft-pegged central bank with discretionary monetary anchors that conflicted with each other and triggered currency crises. It had an external anchor (flexible exchange rate) and domestic anchor (flexible inflation targeting), which allowed officials to delay interest rate rise on various pretexts. A favorite pretext was that some part of inflation was not monetary (non-demand driven). The central bank targeted high inflation index of up to 4 percent, but also mentioned core inflation and the exchange rate. In the past it has targeted a real effective exchange rate index at 100 in the flexible inflation targeting regime.

(Source: <https://economynext.com/sri-lanka-inflation-gallops-to-18-7-pct-in-march-2022-92331/>)

- Q.5(a)** What all are the reasons for Galloping Inflation? **07**
- Q.5(b)** Why a higher rate of inflation is not good for any economy? **07**
- OR**
- Q.5(a)** What are the measures to curb the inflation? **07**
- Q.5(b)** Explain the threats for Indian Economy due to this scenario of neighboring country. **07**

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