Roll No. _____

(Do not write anything on question paper except Roll No.)

[This paper consists of FOUR Pages]

Jagan Institute of Management Studies

End-Term Examination, December 2017 – January 2018

Trimester II – PGDM (IB) 2017-19

Macroeconomic Management

ET_IB_MEM_2612

Time: 3 Hrs. *M. Marks: 70*

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

Q 1 Comment upon any **THREE** of the following:

a) Deflation might be a problem for an economy.

b) An equal amount of government expenditure and autonomous tax (lump sum) will leave the equilibrium level of national income unaffected.

c) Money as a medium of exchange has solved some of the big problems of the barter system.

d) Macroeconomics is concerned with the nature, relationships and the behaviour of economic aggregates.

e) GST will be a game changer. **15**

Q 2 What is demand pull inflation? What are the factors behind the demand pull inflation? What are the monetary policy measures to control demand pull inflation. **12**

Q 3 A fiscal explanation (except in extreme circumstances) leads to higher interest rate and higher income level. Do you agree with the statement or not? Explain by using IS and LM curves. **12**

Q 4 Analyse the impact of expansionary monetary policy (using two instruments) on income level and rate of interest. **12**

Q 5 Since inception Reserve Bank of India has been playing an important role in the economic development and monetary stability in the country. Do you agree with the statement or not. Explain. **12**

Q 6 In the integrated world, India should make policy not only to attract foreign capital but also to change the composition of foreign capital. Do you agree with the statement or not? Explain **12**

Q 7 Answer the questions after studying the following case:

Demographic trends in India, the second most populous country in the

world, suggest that a million people join the labour force every month. This amounts to 12 million Indians joining the labour force every year, which is more than the entire population of Sweden. With millions of young people joining the labour market every month, the question on their lips is if there will be enough jobs for them. Few are asking who creates jobs.

Contrary to popular belief, India produces too few entrepreneurs for its stage of development. The pace of creation of new businesses and new start-ups in India is low compared to the rest of the world. A slow pace of entrepreneurship is associated with a slow pace of job creation. An examination of millions of enterprises in India and the US has shown a very strong link between new start-ups and subsequent job growth in both countries. A detailed examination of enterprise in 600 districts in India confirms the strong relationship between new start-ups and subsequent job growth.

Districts in India that embraced entrepreneurship have experienced faster job growth. It is not only that the pace of entrepreneurship growth is too slow in India, it is also lopsided. There is huge heterogeneity in entrepreneurship within India, with new establishments concentrated in a few places. There is extensive evidence of agglomeration economies. Supportive incumbent industrial structures for input and output markets are strongly linked to higher establishment entry rates. For a city, start-ups are more frequent in industries that share common labour needs or have customer-supplier relationships with the city's incumbent businesses.

However, strong agglomeration economies and supportive incumbent industrial structures still do not explain why heterogeneity in entrepreneurship within India should be much bigger than what other countries have experienced. The huge heterogeneity in entrepreneurship within India raises big policy questions: Which district traits encourage local entrepreneurship? Or is it differential returns to entrepreneurship? Or do entrepreneurs respond to differences in the availability of physical and human infrastructure? We did a detailed examination of these traits using data from millions of enterprises. The differences in the spatial location of entrepreneurship are not a result of the differences in entrepreneurial returns. Anticipation of abnormal returns is not the driving force.

Demographics have played only a limited role. The two most consistent policy factors that predict overall entrepreneurship in a district are its

local education levels and the quality of local physical infrastructure. These patterns are true for both manufacturing and the services industry. Good physical infrastructure is essential to supporting entrepreneurship, economic growth and job creation. Goods and services cannot be produced, or jobs created, without access to roads, electricity, telecommunication, water, education and health. The link between education and entrepreneurship has strong roots. Education improves skill and spreads ideas more quickly.

Programmes that promote education in poorer districts can increase the supply of potential entrepreneurs, provide broader benefits to the communities, and enhance equity. There are limits to the pace at which India can accumulate physical capital and invest in physical infrastructure, but there is no limit to the speed with which India can close the gap in knowledge. There is no one magic formula, or one size fits all, for making all districts more enterprising. The market should be used to determine its comparative advantage. Policymakers have the responsibility of providing infrastructure.

Districts become more competitive when they are liveable, have good infrastructure, are well-governed, invest more in urban knowledge generation and capacity- building and work through strengthened public and private partnerships at the local, national, and international levels. They will attract more entrepreneurs and create more jobs. The jobs challenge faced by India will be shaped not just by how India invests in physical and human infrastructure, but by global trends towards increasing use of digital technologies. Heavy manufacturing is likely to start shedding jobs first. Light manufacturing still has the potential to create some jobs. Many more new jobs will be created in modern services. The future of jobs will be driven more by education and skills than in the past. Policymakers will need to introduce innovations in the content and delivery of education. The potential of technology-enabled solutions, supported by a stronger foundation of digital literacy, will go a long way in putting the future of jobs on a stronger footing.

The future of jobs remains positive, given that India is starting from a low base in entrepreneurship. India's strength in entrepreneurship lies in its small enterprises. They are now well integrated in global supply chains. Last but not least, women-headed entrepreneurship will become the new driver of job growth in the future. The policy message on entrepreneurship and job growth is simple.

Local governments wanting to promote pro-entrepreneurial growth

should focus less on firm-casing —attracting large mature firms from somewhere else—and focus more on encouraging entrepreneurship in their community. This link between entrepreneurship and job growth is not automatic. Districts that have a higher level of local education and better quality of local infrastructure will attract many more entrepreneurs and create many more jobs.

Questions:

a) Problem of jobless growth can be solved if state works as a facilitator than as a regulator. Do you agree with the statement or not. Explain. **7**

b) Why does huge heterogeneity in entrepreneurship with in India raise big policy question? **7**

c) Fast technological changes are putting challenges for Indian entrepreneurs in this integrated world. Do you agree with the statement or not? Give your views. **5**

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