

Economic Environment for Banking

Date: 5.6.2008

Marks: 100

Time: 11.00 am to 2.00 pm

Instructions:

- 1) **The question paper consists of three parts A, B & C**
- 2) **Answer the questions in each part as directed.**
- 3) **Figures in brackets in the margin indicate full marks.**

Part A
Basic Concepts

Answer any Five of the following questions

(5 x 12 = 60 Marks)

1. What do you understand by Price Index? Explain the following :
 - a. Consumer Price Index (CPI)
 - b. Wholesale Price Index (WPI)
 - c. GDP Deflator
2. What are the components of Money Supply? Explain the concept of Money Multiplier with an example. Describe the component and sources of M3 and Bank Finance.
3. What do you understand by Fiscal Deficit? What is the trend of Fiscal Deficit in India after economic reforms? What is the impact of Fiscal Deficit in the economy? What, according to you, is the long term solution to fiscal deficit in India?
4. a) What do you understand by the concept Universal Banking? What is the trend of growth of Universal Banking across countries?
b) The RBI Discussion Paper of 1998 addressed to three issues relating to FIs' movement towards Universal Banking. State the issues involved and explain the RBI approach in this regard?
5. What according to you are the reasons for the spiraling inflation in India? What are the policy choices before the Govt. of India to contain inflation? Should the emphasis be overwhelming on fiscal measures? Is there a case for greater Govt. intervention in fiscal/ commodities market?
6. What do you understand by Balance of Payment? What are its three major divisions? What is meant by Balance of Payment deficit or surplus? Explain the position of India in this regard.
7. What is meant by convertibility of currency? Is India ready for "Full Convertibility of Rupee"? Give reasons for your answer/
8. a) Discuss the four generic forms of Entry available for new firms wanting to enter an industry.
b) Discuss Analysis of Competitive Rivalry using Porter's Five Forces Model

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Part B : Problem Testing, Conceptual understanding

9. From the following data find
- GDP at market prices
 - Personal savings
 - Net domestic savings

(3+2+4= 10 marks)

Rent = 1000	Interest = 500
Wages and salaries = 30,000	Dividends paid to domestic residents = 3000
Gross investment = 11000	Dividends paid to foreigners = 250
Net investment = 7000	Retained profits = 400
Indirect taxes = 600	Corporate profit tax = 300
Subsidies = 100	Factor income from abroad = 450
Income taxes = 800	Personal consumption = 21,000
Government expenditure = 16,000	Transfers = 150

10. From the following Balance of payments statement, calculate

(5+5 marks)

- Net current account balance
- Change in forex reserves

Merchandise exports = 1400	Official and private transfers inflow = 300
Merchandise imports = 1500	Official and private transfers outflow = 500
Services imports = 4000	Net investment income = 500
Services exports = 9500	Short term loans abroad = 300
FDI into country = 350	Short term loans into the country = 150
Direct investment abroad = 100	Commercial borrowings by India = 50
	Commercial borrowings from India = 30

Part C : Case study

11. Read the following case carefully.

In the twilight of Doha
 Jul 27th 2006| WASHINGTON,DC
 From The Economist print edition

The global trade talks have collapsed because the world's biggest economies prefer failure to compromise. What comes next?

AT LAST it is official. After stumbling on for months, the Doha trade talks have collapsed. On July 24th, at the end of yet another futile gathering of trade ministers in Geneva, Pascal Lamy, the World Trade Organization's director general, formally suspended the negotiations. He set no date for their resumption. As Kamal Nath, India's trade minister put it, the Doha round "is definitely between intensive care and the crematorium"

Launched in the Quatari capital in 2001, soon after the terrorist attacks on New York and Washington, DC, the Doha round was to be an "ambitious" effort to make globalization more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming, the rich-world's most molly-coddled industry.

For almost five years, negotiations haggled over just what such an “ambitious” effort should look like- and made scant progress. Technically there was nothing inevitable about this week’s collapse. Yet , despite their grand rhetoric, the world’s big economies have long appeared unwilling to make the political compromises that a Doha deal requires.

Judging whether Geneva 2006 is a replay of Brussels 1990 means answering two questions: why will today’s negotiators not compromise? And what, if anything, could change their mind?

The fault lines in the Doha round are deep. America wants to slash tariffs, arguing (rightly) that the best way to help poor countries is through more open markets. Since America’s tariffs are already low, that puts the onus on the European Union (EU) to cut farm tariffs and on big emerging economies to reduce barriers on farm goods and industrial products. Emerging economies, in contrast, want fewer farm subsidies and lower tariffs in rich countries, but are loth to reduce their own barriers much. Countries such as India argue that in a pro-poor Doha round they need do little. The EU chides America both for demanding unrealistically large tariff cuts from others and for offering too little farm-subsidy reform of its own.

In principle, a compromise was there for the taking. Indeed, Mr Lamy has informally laid out its contours: more subsidy cuts than America has offered and more ambitious tariff cuts by the EU and big emerging economies. So why has nothing happened? One reason is genuine differences over whether the interests of poor people are best served by lower tariffs or more special protection. But the explanation lies chiefly in the failure of countries to face down their own powerful protectionist lobbies, particularly farmers.

Question :

(20 marks)

It is a universally accepted fact that trade enhances consumption and production possibilities and leads to higher prosperity levels. Why then all countries of the world restrict trade? Discuss the reasons behind failure of Doha trade talks.

END OF QUESTION PAPER

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