

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: Money, Banking and Public Finance  
Semester-III (Batch: 2014-19)

End Semester Examination: Oct-Nov. 2015

Date: 2<sup>nd</sup> November, 2015

Duration: 3 hours

Max. Marks: 50

**Instructions:**

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.

Q.1 Explain **any seven** of the following questions with reasons or examples. (Word limit: Maximum 40-50 words) Marks (7x2=14)

(a) Impact of tax on seller:

What will be the incidence of taxation in the cases of demand is (i) **Perfectly inelastic** (ii) **Elastic** and in both cases the supply curve is normal?

(b) Impact of tax on buyer :

What will be the incidence of taxation in the cases of supply is (i) **Inelastic** (ii) **Perfectly Elastic** and in both the cases the demand curve is normal?

(c) With the help of following information calculate Capital Adequacy Ratio (CAR).

Assume Bank X has 3 crore in tier one capital and 1 crore in tier two capital. It also has five loans/assets and their assigned risk weight are as follows:

	Exposure	Risk Weight
Government Treasury held as asset	10 crore	0%
Loans to Corporates	20 crore	20%
Loans to Small Businesses	80 crore	50%
Loans to Prime lenders	200 crore	10%
Guarantees and other non-balance sheet exposures	16 crore	100%

(d) Explain "The Universal Banking System has increased economic efficiency in the overall financial system." Identify the regulatory challenges that still exists.

(e) Keynes' Theory of Demand for Money.

(f) Describe Regressive taxation and Regressive expenditure.

(g) Micro Prudential Regulation versus Macro Prudential Regulation in the context of global financial system.

- (h) India's Fiscal deficit at 5.2 per cent of GDP in 2012-13, 4.8 per cent of GDP in 2013-14, 4.1% of GDP in 2014-15 and will be 3.9 per cent of GDP in 2015-16 and Non-debt capital receipts data is given in the following table.

	2001-02	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (RE)	2014-15 (BE)
Non-debt capital receipts (of which)	20049	66467	12226	6427	43895	6705	33194	35266	36938	40950	36643	73952
Recoveries of loans and advances	16403	62043	10645	5893	5100	6139	8613	12420	18850	15060	10802	10527
Disinvestment of equity	3646	4424	1581	534	38795	566	24581	22846	18088	25890	*25841	*63425

What is the relationship between Fiscal Deficit and Non-debt capital receipts? Whether there is a good indication for Indian Economy in the long-term perspective? Explain.

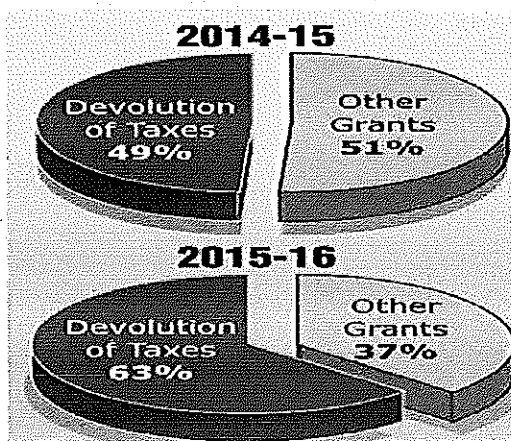
- (i) Explain from the following statistics, whether FRBM Act was implemented by the States? What were the reasons for the implementation of the Act?

Gross Fiscal Deficit (GFD), Revenue Deficit (RD), Primary Deficit (PD)											
All States aggregate	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (RE)	2014-15 (BE)
GFD/GDP	3.3	2.5	1.6	1.4	2.4	3.0	2.1	1.9	1.9	2.5	2.4
RD/GDP	1.2	0.2	-0.7	-0.9	-0.2	0.6	0.0	-0.3	-0.2	0.0	-0.3
PD/GDP	0.6	0.2	-0.6	-0.6	0.6	1.2	0.5	0.4	0.4	1.0	0.9

- Q.2 Write short note of any six of the following questions and draw diagram wherever necessary. (Word limit: Maximum 275-300 words) (6x6=36)

- Discuss Wiseman Peacock hypothesis with the perspective of increase in public expenditure in India. Explain the concept of Marginal Social Benefit (MSB) with regards to public expenditure.
- Explain the statement: "Money market is not a single market but a collection of markets for various instruments". Discuss in detail the participation of important stakeholders in the money market.
- Discuss the subject matter of Balance of Payment (BOP) and Rupee convertibility in the current and capital account. Why is the balance of payment and rupee convertibility important for understanding the global financial system? Explain
  - Discuss the role, function and challenges of Global Financial System.
- Discuss the following monetary policy instruments comprehensively with examples.
  - Liquidity adjustment facility versus Marginal Standing Facility
  - Open Market Operations (OMOs) and Market Stabilization Scheme (MSS)
  - Credit Rationing versus Lending Margin
- Whether India's Internal Debt is higher than external debt. Why external debt real burden is higher compare to internal debt? Explain.
  - Discuss the burden of public debt to posterity.

- (f) Discuss any **one** of the following questions in detail.
- Indian Derivative Market and Indian Capital Market
  - Discuss "India's Fiscal Federalism is moving towards cooperative and competitive federalism." Explain from the following data, why India's Fiscal Federalism is the combination of centralization and decentralization?



- (g) (i) Derive and explain the theory of Money Multiplier and the theory of high-powered money. Why Money multiplier and high-powered money are known as tools for monetary policy?
- (ii) In Money Multiplier process; Currency deposit ratio ( $c$ ) = 0.5, required deposit ratio ( $r$ ) = 0.1 and government purchased 60 crore of government securities from commercial bank (High powered money).  
How much of credit creation will be done by the banks (bank increasing money supply)? Explain the process of money supply creation by the banks.
- (h) (i) Discuss the history and evolution of the international currency regime from gold standard to the dollar standard.
- (ii) Discuss the development of the modern monetary system based on Goldsmith story.

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