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INTERMEDIATE M'19 EXAM

SUBJECT- F.M. AND ECONOMICS

Test Code – PIN 5062

BRANCH - () (Date :)

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ANSWER-1

ANSWER-A

(A) Computation of Differential Cash Flow

	(Rs.)		
	Plant A	**Plant B**	**Differential Cash Outflow**
Direct Labour Cost:			
1st shift	30,00,000	15,00,000	(15,00,000)
2nd shift		19,00,000	19,00,000
Overhead	5,00,000	4,20,000	(80,000)
Net Saving for using Plant A			3,20,000

Present value of net saving of (Rs. 3,20,000 × 6.1446) = Rs. 19,66,272 for Plant A @ 10% (cost of capital).

(3 MARKS)

(B) Additional Cash Outlay for Plant A over Plant B

	Rs.
Cost of Plant A	60,00,000
Cost of Plant B	44,00,000
Additional Outlay for using Plant A	16,00,000

Analysis: The net saving for the company in choosing Plant A = Rs. 19,66,272 – Rs. 16,00,000 = Rs. 3,66,272. Hence, Plant A should be implemented.

(2 MARKS)

ANSWER-B

Workings:

(i) Cost of Equity (K) = $\frac{D1}{P0} + g$ = $\frac{Rs.3}{Rs.30} + 0.07$ =0.1 + 0.07 = 0.17 = 17%

(ii) Cost of Debentures (Kd) = I (1 - t) = 0.09 (1 - 0.4) = 0.054 or 5.4%

Computation of Weighted Average Cost of Capital (WACC using market value weights)

Source of capital	Market Value of capital (Rs.)	Weight	Cost of capital (%)	WACC (%)
9% Debentures	30,00,000	0.30	5.40	1.62
12% Preference Shares	10,00,000	0.10	12.00	1.20
Equity Share Capital	60,00,000	0.60	17.00	10.20

(Rs.30 × 2,00,000 shares)				
Total	1,00,00,000	1.00		13.02

(5 MARKS)

ANSWER-C

Market Price (P) per share as per Walter's Model is :

$$P = \frac{D+\frac{r}{K_e}(E-D)}{K_e}$$

Where,

P = Price of Share

r = Return on investment or rate of earning

K_e = Rate of Capitalisation or Cost of Equity

Calculation of Market price (P) under the following dividend payout ratio and earning rates :

		(i)	(ii)	(iii)
	Rate of Earning (r)	**DP ratio 50%**	**DP ratio 75%**	**DP ratio 100%**
(a)	15%	$\frac{5+\left(\frac{0.15}{0.10}\right)(10-5)}{0.10}$ $= \frac{12.5}{0.10}$ = Rs. 125	$\frac{7.5+\left(\frac{0.15}{0.10}\right)(10-7.5)}{0.10}$ $= \frac{11.25}{0.10}$ = Rs. 112.5	$\frac{10+\left(\frac{0.15}{0.10}\right)(10-10)}{0.10}$ $= \frac{10}{0.10}$ = Rs. 100
(b)	10%	$\frac{5+\left(\frac{0.10}{0.10}\right)(10-5)}{0.10}$ $= \frac{10}{0.10}$ = Rs. 100	$\frac{7.5+\left(\frac{0.10}{0.10}\right)(10-7.5)}{0.10}$ $= = \frac{10}{0.10}$ = Rs. 100	$\frac{10+\left(\frac{0.10}{0.10}\right)(10-10)}{0.10}$ $= \frac{10}{0.10}$ = Rs. 100
(c)	5%	$\frac{5+\left(\frac{0.05}{0.10}\right)(10-5)}{0.10}$ $= \frac{7.5}{0.10}$ = Rs. 75	$\frac{7.5+\left(\frac{0.05}{0.10}\right)(10-7.5)}{0.10}$ $= \frac{8.75}{0.10}$ = Rs. 87.5	$\frac{10+\left(\frac{0.05}{0.10}\right)(10-10)}{0.10}$ $= \frac{10}{0.10}$ = Rs. 100

(5 MARKS)

ANSWER-D

Current Ratio = $\frac{Current\ Assets\ (CA)}{Current\ Liabilities\ (CL)}$ = 2 i.e. 2 : 1

No.	Situation	Improve Decline / No Change	Reason
(i)	Payment of Current Liability	Current Ratio will improve	Let us assume CA is Rs. 2 lakhs & CL is Rs. 1 lakh. If payment of Current Liability

			= Rs. 10,000 then, CA = 1,90,000 CL = 90,000.
			Current Ratio = $\frac{1,90,000}{90,000}$
			= 2.11 : 1. When Current Ratio is 2 : 1 Payment of Current liability will reduce he same amount in the numerator and denominator. Hence, the ratio will improve.
(ii)	Purchase of Fixed Assets by cash	Current Ratio will decline	Since the cash being a current asset converted into fixed asset, current assets reduced, thus current ratio will fall.
(iii)	Cash collected from Customers	Current Ratio will not change	Cash will increase and Debtors will reduce. Hence No Change in Current Asset.
(iv)	Bills Receivable dishonoured	Current Ratio will not change	Bills Receivable will come down and debtors will increase. Hence no change in Current Assets.
(v)	Issue of New Shares	Current Ratio will improve	As Cash will increase, Current Assets will increase and current ratio will increase.

(5 MARKS)

ANSWER-2

Calculation of Net Working Capital requirement :

	Rs.	**Rs.**
A. Current Assets :		
Inventories :		
Stock of Raw material	1,44,000	
(Refer to Working note (iii)		
Stock of Work in progress	7,50,000	
(Refer to Working note (ii)		
Stock of Finished goods	20,40,000	
(Refer to Working note (iv)		
Debtors for Sales	1,02,000	
(Refer to working note (v)		
Cash	2,00,000	
Gross Working Capital	32,36,000	32,36,000
B. Current Liabilities :		
Creditors for Purchases	1,56,000	
(Refer to Working note (vi)		
Creditors for wages		
(Refer to Working note (vii)	23,250	
	1,79,250	1,79,250
Net Working Capital (A – B)		30,56,750

(3 MARKS)

Working Notes : **(7 MARKS)**

(i) Annual cost of production

	Rs.
Raw material requirements	
{(31,200 × Rs. 40) + (12,000 × Rs. 40)}	17,28,000
Direct Wages {(31,200 × Rs. 15) + (12,000 × Rs. 15 × 0.5)}	5,58,000
Overheads (exclusive of depreciation)	
{(31,200 × Rs. 30) + (12,000 × Rs. 30 × 0.5)}	1,16,000
Gross Factory Cost	34,02,000
Less : Closing W.I.P. [12,000 (Rs. 40 + Rs. 7.5 + Rs. 15)]	(7,50,000)
Cost of Goods Produced	26,52,000
Less : Closing Stock of Finished Goods (Rs. 26,52,000 × 24,000/31,200)	(20,40,000)
Total Cash Cost of Sales	6,12,000

(ii) Work in progress stock

	Rs.
Raw material requirements (12,000 units × Rs. 40)	4,80,000
Direct wages (50% × 12,000 units × Rs. 15)	90,000
Overheads (50% × 12,000 units × Rs. 30)	1,80,000
	7,50,000

(iii) Raw Material stock

It is given that raw material in stock is average 30 days consumption. Since, the company is newly formed; the raw material requirement for production and work in progress will be issued and consumed during the year. Hence, the raw material consumption for the year (360 days) is as follows :

	Rs.
For Finished goods (31,200 × Rs. 40)	12,48,000
For Work in progress (12,000 × Rs. 40)	4,80,000
	17,28,000

Raw material stock = $\frac{Rs.17,28,000}{360\ days} \times 30\ days$ = Rs. 1,44,000

(iv) Finished goods stock :

24,000 units @ Rs. (40 + 15 + 30) per unit = Rs. 20,40,000

(v) **Debtors for sale :** Rs. 6,12,000 × $\frac{60\ days}{360\ days}$ = Rs. 1,02,000

(vi) **Creditors for raw material Purchases [Working Note (iii)] :**

Annual Material Consumed (Rs. 12,48,000 + Rs. 4,80,000)	Rs. 17,28,000
Add : Closing stock of raw material	Rs. 1,44,000
	Rs. 18,72,000

Credit allowed by suppliers = $\frac{Rs.18,72,000}{360\ days}$ × 30 days = Rs. 1,56,000

(vii) Creditors for wages :

Outstanding wage payment = $\frac{Rs.5,58,000}{360\ days} \times 15$ days = Rs. 23,250

ANSWER-3

Purchase Option

Loan instalment = Rs. 200 lakhs / (1 + PVIFA 12%, 4)

= Rs. 200 lakhs /(1 + 3.038) = Rs. 49.53 lakhs

Interest payable = (Rs. 49.53 × 5) − Rs. 200 lakhs = Rs. 47.65 lakhs

Working note :

Amortization of Loan Installment

Year	Loan amount (Rs. In Lakhs)	Instalment (Rs. In Lakhs)	Interest (Rs. In Lakhs)	Principal (Rs. In Lakhs)	O/s Amount (Rs. In Lakhs)
0	200	49.53	0.00	49.53	150.47
1	150.47	49.53	18.06	31.47	119.00
2	119.00	49.53	14.28	35.25	83.75
3	83.75	49.53	10.05	39.48	44.27
4	44.27	49.53	*5.26	44.27	-
5	0	0	0	0	0

(4 MARKS)

Calculation of PV of outflow under Purchase Option

(Rs. In Lakhs)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
End	**Debt payment**	**Int. of the o/s Principal**	**Dep.**	**Tax Shield [(3) +(4) × 0.3**	**Net Cash outflows (2) – (5)**	**PV factors @ 10%**	**PV**
0	49.53	0.00	0.00	0.00	49.53	1.000	49.53
1	49.53	18.06	32.00	15.02	34.51	0.909	31.37
2	49.53	14.28	32.00	13.88	35.65	0.826	29.44
3	49.53	10.05	32.00	12.61	36.92	0.751	27.72
4	49.53	*5.26	32.00	11.18	38.35	0.683	26.19
5	49.53	0	32.00	9.60	(9.60)	0.621	(5.96)
		47.65	160.00				158.29
			Less : PV of Salvage Value (Rs. 40 Lakhs × 0.621) =				24.84
			Total PV of Outflow				133.45

*Balancing Figure

Leasing Option

PV of Outflows under lease @ 10% = Rs. 48 lakhs × (1 – 0.30) × 3.790

= Rs. 127.34 lakhs

Decision: The plant should be taken on lease because the PV of outflows is less as compared to purchase option.

(6 MARKS)

ANSWER-4

Income Statement

Particulars	Amt. (Rs.)
Sales	75,00,000
Less : Variable cost (56% of 75,00,000)	(42,00,000)
Contribution	33,00,000
Less : Fixed costs	(6,00,000)
Earnings before interest and tax (EBIT)	27,00,000
Less : Interest on debt @ 9% on Rs. 45 lakhs)	(4,05,000)
Earnings before tax (EBT)	22,95,000

(2 MARKS)

(i) ROI = $\frac{EBIT}{Capital\ employed} \times 100$ = $\frac{EBIT}{Equity+Debt} \times 100$

= $\frac{27,00,000}{55,00,000+45,00,000} \times 100$ = 27%

(ROI is calculated on Capital Employed)

(ii) ROI = 27% and Interest on debt is 9%, hence, it has a favourable financial leverage.

(iii) Capital Turnover = $\frac{Net\ Sales}{Capital}$

OR = $\frac{Net\ Sales}{Capital}$ = $\frac{Rs.75,00,000}{Rs.1,00,00,000} = 0.75$

Which is very low as compared to industry average of 3.

(iv) Calculation of Operating, Financial and Combined leverages

(a) Operating Leverage = $\frac{Contribution}{EBIT}$ = $\frac{Rs.33,00,000}{Rs.27,00,000}$ = 1.22 (approx.)

(b) Financial Leverage = $\frac{EBIT}{EBT}$ = $\frac{Rs.27,00,000}{Rs.22,95,000}$ = 1.18 (approx.)

(c) Combined Leverage = $\frac{Contribution}{EBT}$ = $\frac{33,00,000}{Rs.22,95,000}$ = 1.44 (approx.)

Or = Operating Leverage × Financial Leverage = 1.22 × 1.18 = 1.44 (approx)

(v) Operating leverage is 1.22. So if sales is increased by 10%. EBIT will be increased by 1.22 × 10 i.e. 12.20% (approx.)

(vi) Since the combined Leverage is 1.44, sales have to drop by 100/1.44 i.e. 69.44% to bring EBT to Zero

Accordingly, New Sales = Rs. 75,00,000 × (1 – 0.6944)

= Rs. 75,00,000 × 0.3056

= Rs. 22,92,000 (approx.)

Hence at Rs. 22,92,000 sales level EBT of the firm will be equal to Zero.

(vii) Financial leverage is 1.18. So, if EBIT increases by 20% then EBT will increase by 1.18 × 20 = 23.6% (approx.)

(8 MARKS)

ANSWER-5

i) The net present values of the Projects A and B at cost of capital are as below:

Years	Project-A (Rs Lakh]	PVF at 17%	Present value of cash inflow	Project-B (Rs lakh]	PVF at 17%	Present value of cash inflow
0	-250	1	-250	-250	1	-250
1	60	0.8547	51.3	100	0.8696	87.0
2	70	0.7305	51.1	120	0.7561	90.7
3	80	0.6244	49.9	100	0.6575	65.8
4	120	0.5337	64.0	20	0.5718	11.4
5	120	0.4561	54.7	40	0.4972	19.9
NPV			271.1			24.8

Based on NPV rule the firm must undertake Project A having higher NPV.

(5 MARKS)

ii) Using certainty equivalent (CE) approach we may find the equivalent cash flows that are certain by using the certainty equivalent factor for each year, and then discounting these certain cash flows at risk free rate.

Years	Project- A (Rs Lakh]	CE factor	Adjusted Cash flow	PVF at 6%	Present value of cash inflow	Project- B (Rs lakh]	Adjusted Cash flow	Present value of cash inflow
0	-250	1	-250	1	-250	-250	-250	-250
1	60	0.9	54	0.9434	50.9	100	90	84.9
2	70	0.8	56	0.8900	49.8	120	96	85.4
3	80	0.7	56	0.8396	47.0	100	70	58.8
4	120	0.6	72	0.7921	57.0	20	12	9.5
5	120	0.5	60	0.7473	44.8	40	20	14.9
NPV					0.3			3.6

Based on the certain cash flows as modified by the certainty equivalent factor Project B is preferable since it has positive NPV while Project A has negative NPV.

(5 MARKS)

ANSWER-6

ANSWER-A

Difference between Financial Lease and Operating Lease

	Financial Lease	Operating Lease
1.	The risk and reward incident to ownership are passed on to the lessee. The lessor only remains the legal owner of the asset.	The lessee is only provided the use of the asset for a certain time. Risk incident to ownership belong wholly to the lessor.
2.	The lessee bears the risk of obsolescence.	The lessor bears the risk of obsolescence.
3.	The lessor is interested in his rentals and not in the asset. He must get his principal back along with interest. Therefore, the lease is non- cancellable by either party.	As the lessor does not have difficulty in leasing the same asset to other willing lessor, the lease is kept cancelable by the lessor.
4.	The lessor enters into the transaction only as financier. He does not bear the cost of repairs, maintenance or operations.	Usually, the lessor bears cost of repairs, maintenance or operations.
5.	The lease is usually full payout, that is, the single lease repays the cost of the asset together with the interest.	The lease is usually non-payout, since the lessor expects to lease the same asset over and over again to several users.

(4 MARKS)

ANSWER-B

Advantages of Walter Model

1. The formula is simple to understand and easy to compute.
2. It can envisage different possible market prices in different situations and considers internal rate of return, market capitalization rate and dividend payout ratio in the determination o f market value of shares.

(2 MARKS)

ANSWER-C

(a) Floating Rate Bonds: These are the bonds where the interest rate is not fixed and is allowed to float depending upon the market conditions. These are ideal instruments which can be resorted to by the issuers to hedge themselves against the volatility in the interest rates. They have become more popular as a money market instrument and have been successfully issued by financial institutions like IDBI, ICICI etc.

(2 MARKS)

(b) Packing Credit: Packing credit is an advance made available by banks to an exporter. Any exporter, having at hand a firm export order placed with him by his foreign buyer on an irrevocable letter of credit opened in his favour, can approach a bank for availing of packing credit. An advance so taken by an exporter is required to be liquidated within 180 days from the date of its commencement by negotiation of export bills or receipt of export proceeds in an approved manner. Thus Packing Credit is essentially a short-term advance.

(2 MARKS)

PART – B

Answer 7:

(A)

- Money supply in the economy is also determined by the extent of **Credit created** by the **commercial banks.**
- Banks create Money supply in the process of borrowing and lending transactions with the public.
- It **depends on the supply responses of the commercial banking system** of the country to the changes in policy variables initiated by the central bank to influence the total money supply in the economy. **(3 marks)**

(B)

Common objectives of Fiscal Policy include –

- Achievement and maintenance of full employment
- Maintenance of price stability
- Efficiency the allocation of resources
- Acceleration of the rate of economic growth and development
- Equitable distribution of income and wealth. **(2 marks)**

[Note – Students can write any four points among above]

(C)

In a two – sector economy, at equilibrium level, Y = C + I.

Also, Saving (S) = Investment (I) = 6000.

So, Y = 1000 + 0.6Y + 6000.

On solving, Y – 0.6Y = 7000. So, Y = 7000 / 0.40 = 17500.

At this Equilibrium level, since investment (I) = 6000 (Same as savings),

Consumption (C) = Y – I = 11500.

Also, at equilibrium Level, Saving (S) = Investment (I) = 6000. **(3 marks)**

(D)

- ⇢ **<u>This Trade Agreement is between many nations at one time.</u>**
- ⇢ They are very complicated to negotiate, but are very powerful once all parties / Nations sign the agreement. **Example : <u>WTO Agreement</u>**.
- ⇢ Primary Benefit of Multilateral Agreement is that all Nations get treated equally.

(2 marks)

Answer 8:

(A)

Note : Bankers' Deposits with RBI is not relevant here. It is relevant only for **"Reserve Money".**

Particulars	**Rs. In crores**
Currency with Public	7000
Add: Demand Deposits with the Banking System	13000
Add: Other Deposits with the RBI	4000
New Monetary Aggregate 1 (denoted as NM 1)	**24000**
Add : Short Term Time Deposits of **Residents (**including and upto Contractual Maturity of 1 year)	28000
New Monetary Aggregate 2 (denoted as NM 2)	**52000**
Add: Long Term Time Deposits of Residents	64000
Add: Call / Term Funding from Financial Institutions	10000
New Monetary Aggregate 3 (denoted as NM 3)	**126000**
Add: All Deposits with Post office Savings Banks (excl. NSC) 19000 - 3000	16000
Liquidity Aggregate 1 (Denoted as L1)	**142000**
Add : Term Deposits with Term Lending Institutions and Re-Financing Institutions	9000
Add : Term Borrowing by Financing Institutions and Certificates of Deposits issued by Financing Institutions	5000
Liquidity Aggregate 2 (Denoted as L2)	**156000**
Add : Public Deposits of Non – Banking Financial Companies	12000
Liquidity Aggregate 3 (Denoted as L3)	**168000**

(5 marks)

(B)

Private Cost:

- ⇢ It is the **<u>cost incurred and recognized by the producer</u>** or consumer directly involved in a transaction.
- ⇢ Each Producing Firm's Private Cost comprises **<u>Direct Cost of Production</u>** (Materials, Labour, Overhead) only which does not include effect of Negative Externalities, e.g. if there are no pollution – related taxes / penalties. **(1.5 marks)**

Social Cost: (Private Cost + External Cost)

- ⇢ It is the **<u>total costs to the society on account of a production</u>** or consumption activity.

- ⇢ Social Costs = Private costs borne by persons directly involved in a transaction + External Costs borne by third parties not directly involved in the transaction.

(1.5 marks)

(C)

Foreign Exchange is Money denominated in a currency other than the domestic Currency. So, Foreign Exchange Rate =

i) Price of one currency, expressed in terms of units of another currency.
ii) Value of one currency for the purpose of conversion to another.
iii) Number of units of one currency that can be exchange for a unit of another currency. **(2 marks)**

Answer 9:

(A)

Choice of a Monetary Policy Action and its effective implementation is a challenging task in view of the following –

1. **Uncertainties** surrounding the economy, due to both Internal and External sources,
2. Need for exercising **complex judgment** to balance Growth and Inflation Concerns,
3. Rudimentary and **Non – Competitive Financial System**,
4. Lack of Integrated Money and Inter – bank Markets,
5. Issues related to **Operational Autonomy** of the Central Bank,
6. Extent of **co-ordination between Fiscal and Monetary Authorities**. **(3 marks)**

(B)

Recessionary Gap:

- ⇢ It is a measure of **output that is lost when actual national income falls short** of potential income.
- ⇢ Aggregate Demand is not sufficient to create conditions of full employment.
- ⇢ It arises if the **existing level of aggregate production is less than what would be produced** with full employment of resources. **(1.5 marks)**

Inflationary Gap:

- ⇢ It arises **Aggregate Demand rises beyond what the economy can potentially produce** by fully employing it's given resources.
- ⇢ Demand Increase with a given level of output, pushes up prices, is called **Demand – Pull Inflation.**
- ⇢ Prices of Factors (e.g. Rent, Labour) increase, leading to increase in cost of producing goods and services – this is called Cost – Push Inflation**.** **(1.5 marks)**

(C)

- ⇢ To provide **equal opportunities** to all countries in international market for trading purpose.
- ⇢ To increase the **effective global demand**.
- ⇢ To ensure a better **living standards** in the world as a whole.
- ⇢ To provide **amicable solution to the disputes** related to international trade.

(2 marks)

(D)

National Income refers to –

- **Money value** of all the final goods and services produced by a country during a year.
- Aggregate Factor Income which arises from the current production of goods and services by the Nation's economy.
- Total flow of Earnings of the Factor Owners, Which they receive through the production of goods and services.
- Total Income arising to residents of a country, in the form of wages, salaries, rent, interest and profits. **(2 marks)**

Answer 10:

(A)

Particulars	**Industry A**	**Industry B**	**Industry C**
Sale Price of output	400 + 200 + 1000 =1600	500 + 800 =1300	600 + 500 =1100
Less : Cost of Intermediate Consumption	100	400	200 + 500 = 700
Value Added by Industry	1500	900	400

(2 marks)

GDP at Market Prices **= GNP at Market Prices** (no Net factor Income from aborad)	**2800**
Less : Indirect Taxes	(100)
Add: Subsidies	**50**
Gross National Product at Factor Cost	**2750**
Less : Depreciation	(100)
Net National Product at Factor Cost	**2650**
Less : Subsidies	(50)
Add : Indirect taxes	100
Net National Product at market Prices	**2700**

(3 marks)

(B)

	Policy Rate (Repo Rate)	**Bank Rate**
Meaning	Fixed Repo Rate quoted for sovereign securities in the overnight segment LAF is considered as the policy Rate.	It is the standard rate at which RBI is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under the Act.
Significance	RBI uses this Rate for balancing liquidity. Its change gets transmitted through money market to the entire financial system & alters all other short term interest rates & influence aggregate demand – key determination of level of inflation & economic growth.	Once this rate was used as the policy rate in India. Discounting / Re-discounting of Bills of Exchange by RBI has been discounted on introduction of LAF. So, it has become dormant as an Instrument of Monetary management. Now, it has been aligned to MSF rate.
Change in rate	If RBI wants to make it more expensive for banks to borrow	When MSF rate changes alongside policy repo rate changes, it also changes

	money, it increases the Repo rate. Similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate. In other words, an increase in the Repo Rate will lead to higher liquidity and vice-versa, other things remaining constant.	automatically. So, MSF, assumes the role of Bank Rate and currently the bank rate is purely a signalling rate & most interest rates are delinked from it. Now, it is used only for calculating penalty on default in the maintenance of CRR and SLR.

(3 marks)

(C)

- ⇢ Focuses on stimulating aggregate supply in the long – run, to match with increasing Demand, to ensure effective economic growth.
- ⇢ It is applicable for long – run economic growth.
- ⇢ For Example; Government spending on infrastructure, Govt. providing Public Goods (Education etc.) , tax Incentives for innovation, Entrepreneurship etc. **(2 marks)**

Answer 11:

(A)

	Depreciation	**Devaluation**
Meaning	Depreciation is a decrease in a currency's value (relative to another currency) due to market forces in a floating exchange rate regime.	Devolution is a deliberate downward adjustment in the value of a country's currency relative to another currency, group of currencies or standard.
Cause	Depreciation is caused due to increase in demand, with supply remaining constant.	Devaluation is caused by the action of the government / central bank / monetary authority policy actions.
Regime	Applicable for a floating exchange rate regime.	Applicable for a relatively fixed exchange rate regime.
Scope	It is due to the interaction of market forces.	It is a monetary policy tool to make an official reduction in the par value of a currency.

Note: The terms "Appreciation" and "Revaluation" are used to denote the opposite of the above two terms "Depreciation and "Devaluation" respectively.

(3 marks)

(B)

Monetary Policy refers to the use of Monetary Policy Instruments which are at the disposal of the central bank, for the following objectives –

I) To **regulate** the availability, cost and use of money and credit
II) To promote **economic growth**
III) To ensure **Price Stability**
IV) To achieve **optimum levels** of output and employment
V) To obtain **balance of payments** equilibrium
VI) To ensure **stable currency**

VII) To meet **any other goal** of movement's economic policy. **(3 marks)**

(C)

Point	**NTMs**	**NTBs**
Meaning	These are policy measures, other than ordinary customs tariff, that can have an effect on international trade in goods, changing quantities traded, or prices, or both.	These are simple discriminatory practices, by which domestic suppliers are preferred over foreign suppliers.
Scope	NTMs include regulations that restrict traded, or that facilities higher trade. These have a wider scope.	NTBs are oriented only towards restricting imports. Thus, lower in scope.

(2 marks)

(D)

i) Money Value of output = 10000 units x 15.p.u. = Rs.150000

ii) Total Consumer Expenditure, i.e. spending by households = 80% of Incomes = 80% of Rs. 150000 = Rs. 120000. **(2 marks)**