**Economics for Valuation**

**September 2024 Examination**

**Q1. Everbay is a fast growing developing country with abundant resources. Attracted by the high growth rate, the country is witnessing huge amount of interest from foreign investors as well. Capital flows have been coming in at a fast pace in the country. Some economic observers have cautioned that historical experience in other countries have shown that this trend may lead to trouble for the economy in the future. Do you agree? Why or why not- discuss in detail. (10 marks)**

**Ans 1.**

**Introduction**

Everbay, a rapidly developing nation with abundant natural resources, is currently experiencing significant economic growth, attracting considerable attention from foreign investors. The inflow of capital from abroad is contributing to the country's development, fueling infrastructure projects, technological advancements, and overall economic expansion. This scenario is reminiscent of many other developing nations that have experienced similar booms in capital inflows. However, while such growth may seem overwhelmingly positive, economic observers have raised concerns based on historical experiences in other countries. They caution that the rapid influx of

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**Q2. Joe Briganza is the finance minister of Zekerland who has recently launched an initiative to provide incentives to startups in the country. The argument is that it will strengthen the research and development base of the country leading to improvement in technology and thereby increased growth. Do you agree with the statement? Why or why not? Discuss in detail using Growth theories. (10 marks)**

**Ans 2.**

**Introduction**

Zekerland, under the leadership of Finance Minister Joe Briganza, has launched a new initiative aimed at providing incentives to startups. The initiative is rooted in the belief that by fostering a strong startup ecosystem, the country can bolster its research and development (R&D) capabilities, leading to technological advancements and sustained economic growth. This approach aligns with the modern understanding of the relationship between innovation and economic development. Startups, known for their agility and innovative potential, are often at the forefront of technological breakthroughs. By incentivizing these enterprises, Zekerland aims to create

**Q3a. Companies often want to set up their operations where there are less regulations. Does this mean that there should be less regulation in the economy? Present your argument in this regard while discussing the economic rationale for government regulation. (5 marks)**

**Ans 3a.**

**Introduction**

The desire of companies to operate in environments with minimal regulation is driven by the pursuit of higher profits, increased efficiency, and greater flexibility. However, the question of whether this implies that there should be less regulation in the economy is complex. While excessive regulation can stifle innovation and economic growth, the absence of regulation can lead to market failures, exploitation, and negative externalities. The role of government regulation is to strike a balance between fostering a conducive business environment and ensuring the welfare of

**Q3b. Mr. Rajesh is a new intern in an International Banking firm. He has been asked to review the Balance of Payments statements for a set of countries. He finds that there is a large current account deficit in the country X. What does this mean and what would be the likely impact of this on the country’s exchange rate? (5 marks)**

**Ans 3b.**

**Introduction**

A current account deficit occurs when a country's total imports of goods, services, and transfers exceed its total exports. This situation indicates that the country is spending more on foreign trade than it is earning, and it needs to borrow capital from foreign sources to finance the deficit. For an intern like Mr. Rajesh, identifying a large current account deficit in a country, such as country X, raises important questions about the country's economic health and the potential