Financial Management

Total Marks: 30

1. In economics, a recession is a business cycle contraction. It is a general slowdown in economic activity. Macroeconomic indicators, such as GDP (gross domestic product), investment spending, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate continue to rise.

Recessions generally occur when there is a widespread drop in spending (this is considered an adverse demand shock). This may be triggered by various events, such as, a financial crisis, an external trade shock, an adverse supply shock, or even, the bursting of an economic bubble. Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as, increasing money supply, increasing government spending, and decreasing taxation.

Discuss the scope of financial management in an economy, which is facing a recession. (20)

2. Discuss the role of accounting in financial management. (10)