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**PART A MCQS**

1 **A**

2 **B**

3 **B**

4 **C**

5 **A**

6 **B**

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10 **C**

**QUESTION NO:1**

**DISINFLATION**

Disinflation is used to describe the slowing of price on inflation.The rise in the price level signifies that the currency in a given economy losses purchasing power (i.e less can be bought with the same amount money). In other words It is a decrease in the rate of inflation.

**HYPERINFLATION**

Hyperinflation occurs when prices have risen by more than 50% per month over a period time.It is a very high and typically accelerating inflation.It quickly erodes the real value of the local currency.

**COMMERCIAL BANKS**

 A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit.They generally finance trade and commerce with short term loans.

**CENTRAL BANK**

 A central bank plays an important role in monetary and banking system of a country.It is responsible for maintaining financial sovereignty and economic stability of a country, especially in underdeveloped countries.It issues currency, regulates money supply and controls different interests rates in a country.

**DEMAND PULL AND COST PUSH INFLATION**

Demand pull inflation results when the prices rise because aggregate demand in an economy is greater than aggregate supply, While cost push inflation is a result of increased production costs, such as wages and raw materials and decreases aggregate supply.

**EXPANSIONARY AND CONTRACTIONARY FISCAL POLICY**

Expansionary fiscal policy occurs when the rates of tax are cut or increase government spending, shifting aggregate demand curve to the right. While Contractionary fiscal policy occurs tax rates are raises or cuts government spending, shifting aggregate demand to the left.

**OPEN MARKET OPERATION AND DISCOUNT RATE**

Open market operations are flexible and thus the most frequently used tool of monetary policy. The discount rate is the interest rate charged by federal reserve banks to depository institutions on short term loans.

**QUESTION NO:2 (A)**

**MONEY**

Money is a liquid asset used in the settlement of transactions.Generally it is any object that is accepted as payment for goods and services and repayment of debts in a given country or socio-economic context.The main function of money are distinguished as

\*A medium of exchange

\*A unit of an account

\*A store of value

**FUNCTIONS OF MONEY**

 Money has three primary functions. It is a medium of exchange, a unit of account, and a store of value:

**Medium of Exchange**

 When money is used to intermediate the exchange of goods and services, it is performing a function as a medium of exchange.

**Unit of Account**

 It is a standard numerical unit of measurement of market value of goods, services, and other transactions. It is a standard of relative worth and deferred payment, and as such is a necessary prerequisite for the formulation of commercial agreements that involve debt. To function as a unit of account, money must be divisible into smaller units without loss of value, fungible (one unit or piece must be perceived as equivalent to any other), and a specific weight or size to be verifiably countable.

**Store of Value**

 To act as a store of value, money must be reliably saved, stored, and retrieved. It must be predictably usable as a medium of exchange when it is retrieved. Additionally, the value of money must remain stable over time.

**QUESTION NO:2 (B)**

**INSTRUMENTS OF MONETARY POLICY**

Typically, direct instruments include cash reserve (CRR) and/or statutory liquidity ratios (SLR), directed credit and administered interest rates.

**CRR/SLR**

Cash reserve ratio (CRR) determines the level of cash banks need to hold against their net demand and time liabilities. Similarly, statutory liquidity ratio (SLR) requires banks to maintain a part of their liabilities in the form of liquid assets (e.g. government securities).

**Bank rate**

 Bank rate is the rate at which RBI lends to the banking entities to meet their liquidity requirements.

**Interest rates**

 Credit and interest rate directives take the form of prescribed targets for allocation of credit to preferred sectors or industries and prescription of deposit and lending rates.

**QUESTION NO:3 (A)**

**AUTOMATIC STABILIZER AND ITS EXAMPLE**

Automatic stabilizer offset fluctuations in economic activity without direct intervention by policymakers.Automatic stabilizers are the features of the tax and transfer systems that temper the economy when it overheats and stimulate the economy when it slumps, without direct intervention by policy makers.These are fiscal policies which automatically stabilize the economy in the time of economic swings.These policies increases government budget deficit in the time of recession and decrease in the time of inflation.

**EXAMPLE**

examples of automatic stabilizers are unemployment insurance payments, which increase during a recession as more workers become unemployed

\* income taxes, which decrease during a recession as incomes fall. During expansions unemployment insurance payments decrease and income taxes increase.

**QUESTION NO:3 (B)**

**MEASURING OF INFLATION**

Inflation is an increase in the level of prices of the goods and services that household buys. It is measured as the rate of change of those pricesThe most well known indicator of inflation is the consumer price index (CPI) which measures the percentage change in the price of a basket of goods and services consumed by households.To better understand how it is calculated we can use an example:

**Formula :** Inflation = PriceYear2 – PriceYear1 Multiply by 100 and divided by PriceYear1

The price of a book was $20 in 2019 (year 1) and the price increased to $20.50 in 2020 (year 2). The price of an hour of childcare was $30 in 2019, and this increased to $31.41 in 2020.

Using the formula, inflation for each of the individual items can be calculated.

For books, annual inflation was 2.5 per cent, For childcare, annual inflation was 4.7 per cent.

**QUESTION NO:4 (A)**

**CAUSES OF COST PUSH INFLATION**

Some of the causes of cost push inflation are given below:

**SUPPLY SHOCK**

A supply shock is when there is a big increase in prices of critical commodities like oil.This results in higher transport costs and all firms would see a rise in costs.

**HIGHER WAGES**

 Wages form a large percentage of cost for a firm.strong labor unions can influence inflation as they push for higher wages which will leads to an increase in costs of production for the firm and hence higher priced goods.

**IMPORTED INFLATION**

 A devaluation of currency would result in higher prices of imported goods.

**HIGHER TAXES**

An increase in direct taxation.Higher VAT and Excise duties will increase the prices of goods.

**QUESTION NO:4 (B)**

**INFLATION CAN BE GOOD FOR THE ECONOMY**

 Inflation will always reduce the value of money, unless interest rates are higher than inflation.And the higher inflation gets the less chance there is that savers will see any real return on their money.Although in theory that should be good for the economy, by encouraging people to spend rather than save.Inflation also makes it easier on debtors, who repay their loans with money that is less valuable than the money they borrowed.This encourages borrowing and lending, which again increases spending on all levels.Low inflation will always helps the economy and be useful for it, while high inflation can cause problems for the economy.