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Section: A

Department: BBA

Subject: macroeconomics

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| 1) | A |
| 2 | C |
| 3 | D |
| 4 | B |
| 5 | B |
| 6 | A |
| 7 | D |
| 8 | B |
| 9 | A |
| 10 | D |

QNO 2

Part 1.

Transfer payments (zakat , donation etc.) are exclude from the calculation of DGP because we only consider the payment for goods and services in GDP which is not in the case of zakat and donations.

Part 2.

NNP is not commonly used because the calculation and estimation of depreciation is not an easy task and even different businesses use different depreciation methods which may over or underestimate their income.

Part 3.

Employed =138,547,000

Unemployed=6,021,000

Total labor force =employed +unemployed

Total labor force =144568000

Employment rate =4.1%

C is MPC i.e. marginal propensity to consume. c=dC/dY which shows consumption changes when income changes.

Value of c ranges from 0 to 1 So total consumption C is the sum of autonomous Ca and cY.

Part (b);

Some uses of National income: 1.

 Helps in getting the foreign loan: As national income represents the economic strength of a country so those countries whose national income is high are more preferable to get the foreign loan as compare to those countries whose national income is low.

2. Per Capita income: As Per capita income represents the average income of a person in a country and is related to national income which shows the more the national income the more will be the per capita. income which also shows high standard of living life. 3.Economy comparison of different countries:

 As national income shows the economic strength of a country we can compare different countries economy on the basis of national income. The more the national the higher will be its economic strength and vice versa.

4. Production performance of an economy: National income also shows the production performance of an economy as production is the major part of national income the more the production the more will be GDP and national income as well.

 5. Rate of economic growth and development: National income represents the economy growth and development of a country the more the national income the more will be the economic strength of a country which we lead to the development and prosperity of a country.

 PART 5 : OKun’s Law:

 It tells how much the country’s GDP will be lost when unemployment rate is above its natural rate. The law states that; “ for every 1% increase in unemployment will result in 2% loss in GDP relative to the potential GDP.” There are several Reasons why GDP increases or decreases at a faster pace than an unemployment rate. Unemployed people are dropout of the labor force which is not looking for work after which they are no longer counted in unemployment statistics. Employed workers may reduce their working hours . Labor productivity my decrease perhaps because employers retains more workers than required.

(Part6) Money is only a medium of exchange:

 Classical theory consider only a signal function of money that is the medium of exchange and ignores the other functions. According to them money can be only used to exchange for goods and there is no alternative use of it.

 Automatic Adjustment Mechanism:

 Classical economists were of the opinion that wages and prices are flexible and the market will automatically adjust them according to the forces of demand and supply. So any change or problem will itself be sort out due to flexible nature of prices.