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**Part ( A )**

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| --- | --- |
| **1** | **a** |
| **2** | **b** |
| **3** | **b** |
| **4** | **c** |
| **5** | **c** |
| **6** | **b** |
| **7** | **c** |
| **8** | **a** |
| **9** | **b** |
| **10** | **c** |

**Part ( B )**

**Q no1**

**a )**

**Ans /**

* **Disinflation :·**

Whereas deflation is negative economic growth, such a -5%, disinflation is simply a reduction in the rate of inflation, such as the inflation rate going from 9% one year to 7% the next year. It occurs when the rate at which the prices are raising is diminishing.

It is important to note that it does not signal the slowing down of the growth of the economy; it signals a slow in the growth rate of inflation.

* **Hyperinflation :·**

Hyperinflation is an extreme case of inflation where the inflation rate increases above 100%. During hyperinflationary periods, the price level increase by about 500% to 1000% per year. Here, prices cannot be controlled.

Hyperinflation happens when there exists a significant rise in money supply not supported by economic growth. As a result, the supply and demand for money are at a disequilibrium.

* **Central bank :·**

Central banks are normally only prepared to lend to a commercial bank as a lender of last resort. They normally charge a penal rate for such loans. So a commercial will typically only come to the central bank for a loan if it is unable to borrow from other commercial banks because they consider it a bad risk due to suspicion of some kind of liquidity and/or solvency problem.

* **Commercial banks :·**

 A commercial bank provides banking services to businesses, institutions and some individuals. The money it takes in from its customers is deposited at its local central bank.

* **Demand pull :·**

Demand-pull inflation occurs when there is an increase in aggregate demand, categorized by the four sections (households, businesses, governments and foreign buyers). When these four sectors concurrently want to purchase more output than the economy can produce, they compete to purchase limited amounts of goods and services.Buyers in essence "bid prices up", again, causing inflation. This excessive demand is also referred to as "too much money chasing too few goods".

* **Cost push inflation :·**

Cost-push inflation. Cost-push inflation basically means that prices have been "pushed up" by increases in costs of any of the four factors of production (labor, capital, land or entrepreneurship) when companies are already running at full production capacity.

* **Expansionary policy :·**

, if the government reduces tax or increases government expenditure then the aggregate demand in the economy is increased which is known as expansionary fiscal policy and is used during the time of recession.

* **Contractionary policy :·**

Government has two ways it can affect the economy i.e taxation and expenditure decision of the government. When the government increases tax or reduces government expenditure then the government is adopting contractionary fiscal policy in which the aggregate demand of the economy is reduced. The contractionary fiscal policy is used to check inflation.

* **Open market operation :·**

Open market operations (OMO) refers to when the Federal Reserve purchases and sells U.S. Treasury securities on the open market in order to regulate the supply of money that is on reserve in U.S. banks, and therefore available to loan out to businesses and consumers.

* **Discount rate :·**

the discount rate refers to the interest rate charged to the commercial banks and other financial institutions for the loans they take from the Federal Reserve Bank through the discount window loan process.

**Q no2 /**

**Ans /**

**a ) Money :·**

Money is often defined in terms of the three functions or services that it provides. Money serves as a medium of exchange, as a store of value, and as a unit of account.

* **Medium of exchange :·**

 Money's most important function is as a medium of exchange to facilitate transactions. Without money, all transactions would have to be conducted by barter, which involves direct exchange of one good or service for another.

* **Store of value :·**

 In order to be a medium of exchange, money must hold its value over time; that is, it must be a store of value. If money could not be stored for some period of time and still remain valuable in exchange, it would not solve the double coincidence of wants problem and therefore would not be adopted as a medium of exchange.

* **Unit of account :·**

 Money also functions as a unit of account, providing a common measure of the value of goods and services being exchanged.

**b )**

* **Monetary policy :·**

the demand side of economic policy, refers to the actions undertaken by a nation's central bank to control money supply to achieve macroeconomic goals that promote sustainable economic growth.

**Open market operation :·**

Open market operations involve the buying and selling of government securities. The term “open market” means that the Fed doesn’t decide on its own which securities dealers it will do business with on a particular day.

**Discount rate :·**

The discount rate is the interest rate charged by Federal Reserve Banks to depository institutions on short-term loans.

**Reserve instruments :·**

Reserve requirements are the portions of deposits that banks must maintain either in their vaults or on deposit at a Federal Reserve Bank.

**Q no3 /**

**Ans /**

**a ) Automatic stabilizers :·**

Automatic stabilizers are 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 policymakers.

**Examples :·**

* **Unemployment insurance payment :·**

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

* **income tax :·** which decrease during a recession as incomes fall. During expansions unemployment insurance payments decrease and income taxes increase.

**b ) How inflation measure :·**

There are three main measures of inflation. RPI, CPI, and FPI. That is retail price index, consumer price index, and Freddo price index (only used in Britain.)

CPI measures the average cost of a ‘basket of goods’ for a household over the last twelve months. This basket will include things like food, petrol, and clothes. Every time it is updated the rate of inflation is calculated by new cost of the goods.

RPI is very similar to CPI, except it includes things like mortgage repayment costs, rents, and council tax (the costs of your house, effectively.)

FPI, with the PI there because I decided to put it there two minutes ago, is an informal (read: non-existent) measure of inflation. Commonly used amongst the youth of Britain, FPI bemoans the steady rise in price of Freddos over the last years. These tasty bad boys.

**Q no4 /**

**Part ( a )**

**Ans /**

* **Causes of cost push inflation :·**

Following are the main causes of cost push inflation:

* **Increase in cost of raw materials :·**

When the prices of raw materials increases this increase the cost of production of the producer and the

producer increases the price of the

* **Increase in wages:·**

The rise in wages increases the cost of production which increases the price of the product.

* **Imported inflation** :·

Sometimes a country has to face inflation because it imports goods from other countries at continuously rising prices.

* **Decrease in production :·**

Changes in the volume of production, has inverse effect on price level. If in some situation such as

floods, war or political disturbances, production of goods fall, price tends to rise.

* **Indirect tax** :·

Indirect taxes also push up prices of goods. when the government imposed the sales tax on the

commodities like oil, gas, electricity, telephone, food products etc the prices goes up in the market.

**b ) why inflation is good ?:·**

Economists generally argue that some inflation is a good thing. A healthy rate of inflation is

considered to be approximately 2-3% per year. The goal is for inflation (which is measured by

the Consumer Price Index, or CPI) to outpace the growth of the underlying economy (measured

by Gross Domestic Product, or GDP) by a small amount per year.

A healthy rate of inflation is considered a positive because it results in increasing wages and

corporate profitability and keeps capital flowing in a presumably growing economy.

Small amounts of inflation encourage consumption. For example, if you wanted to buy a specific

item, and knew that the price of it would rise by 2-3% in a year, you would be encouraged to

buy it now. Thus, inflation can encourage consumption which can in turn further stimulate the

economy and create more jobs.

However, as some inflation may be good on macroeconomic level, on microeconomic level it might be quite bad for someone ( individual may not like higher prices )