***Iqra National University Peshawar***

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**Assignment # 2**

**MONETARY ECONOMICS**

**Title: FINAL ASSIGNMENT**

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**Ans.1**

**Consequences of Monetary Policy on Pakistan’s Economic Condition:**

Central bank of Pakistan has reduced the interest rate by 200 basis point and current interest rate is 9 percent. It means that State Bank of Pakistan (SBOP) has opted expansionary monetary policy (MP) because of the crisis caused by COVID-19. The motive of expansionary MP is to minimize the impact of COVID-19 on people and businesses. Through easy MP, people and businesses can take loan on easy conditions from bank. There are several channels through which MP can affect economic conditions of Pakistan. Some of that are.

1. Expansionary MP means lower interest rate, which leads to low saving. People will take out their money from bank and will invest it, which will create employment opportunities and hence one can achieve better standard of living by achieving employment.
2. Secondly, that in loose MP, people can take loan on easy conditions (those who are negatively affected from Covid-19 Pandemic) in order to fulfill their necessities.
3. Financial institutions have also affected negatively by global pandemic, they can also stabilize their condition by taking loans on lower interest rate.
4. Lower interest rate leads to higher purchasing power, which leads to higher aggregate demand and it will expand the business sector by increasing their supply to meet the demand of consumers. It also leads to increase in the greater capital investment by businesses.
5. It also increases capital investment, which is one of the ways for creating additional jobs in the market, and hence it will curb unemployment.

With these positive consequences, there are also some negative effects of loose monetary policy. Some of which are;

1. Another side of expansionary MP is, lower interest rate will lead to low saving which in turn leads to lower investment, hence it will cause unemployment and it will reduce the aggregate demand and at the end inflation can be reduced.