

FINAL TERM- FINAL EXAM

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SUBMITTED TO:

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SUBJECT:

MONETARY ECONOMICS

Q1(a):What is Monetary policy? Who formulates it and what are the quantitative tools of monetary policy?

Ans: MONETARY POLICY : This policy is basically contracted from the central bank. It's done mostly in large countries. In monetary policy the government of any country controls the supply of the money as a way to influence price stability. The rate of the inflation will increase if the supply of the money grows and the growth of the economy may slow down if the growth of the money is slowed down.

Types:

Contractionary policy

Expansionary policy

FORMULATED BY: central bank

QUANTITATIVE TOOLS OF MONETARY POLICY:

OPEN MARKET OPERATIONS :

It is the most commonly used tool of monetary policy. It is the buying and selling of government bonds to control bank reserves and money supply by the fed.

DISCOUNT RATE : it is the interest rate in which the bank borrows directly from the fed. It is set by the federal reserve bank. This tool is used in the case of emergency.

CHANGE IN RESERVE RATIO : this tool is basically very beneficial for the customers. The Fed lowers the reserve ratio to let the bank lend more money at very low rates so that can make borrowing money easier and super attractive.

Q1(b):What is the implication of Monetary Policy 2020 on our business activities in the recent pandemic situation?

Ans: The probability of this is an invite sign for the business network in Pakistan, that has been influenced because of these figures. Cutting down the loan costs assists ease with excursion the strains in the business network and will likewise help give the party an extremely critical lift when the economy is battling.

The MPC featured that the coronavirus pandemic has made remarkable difficulties for a fiscal arrangement because of its non-financial source and the brief interruption of monetary movement required to battle it.

While simpler money related strategies can neither influence the pace of disease transmission nor forestall the close term fall in financial action because of lockdowns, it can give liquidity backing to family units and organizations to help them through the following brief period of monetary interruption.

The coronavirus has seriously hit financial exercises. The lower loan fee on the standpoint of low swelling would assist the economy with recovering by 2-3% next monetary year (FY21) contrasted with anticipated negative financial development in the scope of 0.5-1.5% in the current financial year finishing June 30, 2020.

The ongoing monstrous decrease in oil costs in the global and residential markets should additionally tame expansion to 8% in the months to come.

The expansion tumbled to a 10-month low at 8.5% in April. It, in any case, remained marginally higher than 8.3% around the same time of April a year ago, as indicated by the Pakistan Bureau of Statistics (PBS).

Q2(a): What is Interest rate? Differentiate between nominal and Real interest rate.

Ans: INTEREST RATE : The sum charged, communicated as a level of head, by a moneylender to a borrower for the utilization of benefits. It is the amount that has to be paid back and over the original amount that has been borrowed. A very small change in the interest rates can have a huge impact.

It is the additional money that one has to pay.

For example if someone gives you 50k in emergency and then asks you to give 10% extra on the actual amount is known as interest rate

DIFFERENCES BETWEEN NOMINAL AND REAL INTEREST RATE :

REAL INTEREST RATE:

* A loan fee that has been acclimated to expel the impacts of swelling to mirror the genuine expense of assets to the borrower, and the genuine respect of the moneylender. $\text{Genuine Interest Rate} = \text{Nominal Interest Rate} - \text{Inflation}$

* Real value is measured against goods and services

* The real rates are adjusted for inflation

NOMINAL INTEREST RATE :

* Nominal Interest Rate: The loan fee before considering. The ostensible financing cost is the rate cited in advance and store understandings.

* nominal value is measured in terms of money

* The nominal rate are not adjusted for inflation

Q2(b):What are money markets? Explain functions and importance of Money markets in Pakistan.

Ans:MONEY MARKET : a market in which short term funds are borrowed and lent. It is a continual cash flow between the governments, corporations, banks and financial institutions, borrowing and lending for a very short period of time can not be more than a year. The security in the money market is short term. It exists for the people who need money on a short notice.

FUNCTIONS:

The money market helps in the development and stability of a country.

- 1. FINANCING TRADE:** The currency showcase gives financing to nearby and worldwide merchants who are in dire need of monetary assets. It gives an office to limit bills of trade, and this gives quick financing to pay to merchandise and ventures.
- 2. GROWTH OF INDUSTRIES:** The currency showcase gives a simple road where organizations can get transient advances to back their working capital needs
- 3. COMMERCIAL BANK SELF SUFFICIENCY:** The money showcase gives business banks a prepared market where they can contribute their overabundance holds and win premium while looking after liquidity. The momentary speculations, for example, bills of trade can without much of a stretch be changed over to money to help client withdrawals
- 4.** Provide liquidity to the people who invests money
- 5. CENTRAL BANK POLICIES:** The central bank is answerable for directing the money related arrangement of a nation and taking measures to guarantee a sound monetary framework.

IMPORTANCE OF MONEY MARKET:

- * it plays a huge role in internal and international trade.
- * Helps in the encouragement of economic growth
- * Fully helps the government
- * Helps in the development of industry and trade
- * It performs different capacities like Divert sparing into speculation
- * brings budgetary dependability by moving credit from one division to other

Q3(a):What are foreign exchange markets and how it works?

Ans: FOREIGN EXCHANGE MARKET: The foreign exchange market (also known as forex) is an over the counter worldwide commercial center that decides the exchange rate for monetary standards around the globe. The participants can also sell, buy and exchange currencies.

In terms of actively it's on the no 1.

HOW IT WORKS:

1. The market decides the worth, otherwise called an exchange rate, of most monetary standards.
2. Foreign exchange can be as basic as transforming one money for another at a neighborhood bank.
3. It can likewise include exchanging cash on the foreign exchange showcase.
4. This trading takes place directly between the two parties.
5. It is run by the global network of banks.
6. The market controls the value, also known as an exchange rate, of the majority of currencies

Q3(b):Critically analyze the Federal Budget 2020-21.

Ans:Due to the pandemic the budget that has been set is rs 7,294.9 billion

Water Resources: This year, Pakistan has designated Rs70bn for water ventures.

Businesses: The business charge rate for large retailers has been diminished from 14 to 12 %. The choice was taken to encourage them due to the coronavirus episode.

Health and Population :

The administration has designated Rs 70 billion for combatting the coronavirus and different catastrophes. Rs13 billion have been dispensed for the central government-run medical clinics in Karachi and Lahore.

Higher education:

Advanced education has been assigned 34 billion. And rs 189 million will be used for food and energy

Food and Agriculture :

180 billion is given for the electricity food and food security

Defence :

Armed forces development programs have been allocated rs 323 billion. Pakistan's Defense spending plan for 2020-21 is Rs1.289 trillion (practically 12% higher than last year's).

Helping the poor:

Assets worth Rs30 billion will be spent on the Naya Pakistan Housing Scheme which expects to fabricate 10 million houses for the poor in Pakistan.

Railway: pakistani railway will be given rs 40 million.

Science and technology: 5 bn have been allocated to them to do their research work.

Pandemic:

At this point where all of us are going through a very hard time this budget according to me is good and beneficiary because it has a deficit, people have got relief, the taxes have been reduced and in some sectors taxes have gotten higher because it was important.

*****THANK YOU*****