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Q1: Discuss the following concepts?

1. Gross Domestic Product

   Gross National Product

2. Inflation Rate and exchange rate
3. Government expenditure
4. Aggregate demand and aggregate supply
5. Consumption expenditure

Answer :

1. Is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate. GDP can be calculated in three ways, using expenditures, production, or incomes.

- Is a monetary measure of the market value of all the final goods and services produced in a specific time period? GDP (nominal) per capita does not, however, reflect differences in the cost of living and the inflation rates of the countries; therefore using a basis of GDP per capita at purchasing power parity (PPP) is arguably more useful when comparing living standards between nations, while nominal GDP is more useful comparing national economies on the international market

.. Gross National Product

The total value of goods produced and services provided by a country during one year, equal to the gross domestic product plus the net income from foreign investments. is an estimate of total value of all the final products and services turned out in a given period by the means of production owned by a country's residents. ... Net exports represent the difference between what a country exports minus any imports of goods and services

- Inflation Rate and exchange rate
  : The rate at which prices increase over time, resulting in a fall in the purchasing value of money.
  The ultimate determination of the value and exchange rate of a nation's currency is the perceived desirability of holding that nation's currency. That perception is influenced by a host of economic factors, such as the stability of a nation's government and economy. Investors' first consideration in regard to currency, before whatever profits they may realize, is the safety of holding cash assets in the currency. If a country is perceived as politically or economically unstable or if there is any significant possibility of a sudden devaluation or other change in the value of the country's currency, investors tend to shy away from the currency and are reluctant to hold it for significant periods or in large amounts.

- An exchange rate is the value of a country's currency vs. that of another country or economic zone. Most exchange rates are free-floating and will rise or fall based on supply and demand in the market

3. Government expenditure

Government expenditure refers to the purchase of goods and services, which include public consumption and public investment, and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer

So government spending or government expenditure is often divided into three main types: Current Expenditures or Government final consumption expenditure on goods and services for current use to directly satisfy individual or collective needs of the members of the community. Capital Expenditure or Gross

4. Aggregate demand and aggregate supply

Total level of demand for desired goods and services (at any time by all groups within a national economy) that makes up the gross domestic product (GDP). Aggregate demand is the sum of consumption expenditure, investment expenditure, government expenditure, and net exports.

Aggregate demand represents the total demand for goods and services at any given price level in a given period. Aggregate demand over the long-term equals gross domestic product (GDP) because the two metrics are calculated in the same way. GDP represents the total amount of goods and services produced in an economy while aggregate demand is the demand or desire for those goods. As a result of the same calculation methods, the aggregate demand and GDP increase or decrease together.

- Aggregate supply
  Also known as total output, is the total supply of goods and services produced within an economy at a given overall price in a given period
  Supply and demand express a direct relationship between what producers supply and what consumers demand in an economy and how that relationship affects the price of a specific product or service. ... Aggregate supply is an economy's gross domestic product (GDP), the total amount a nation produces and sells

5. Consumption expenditure

Is the spending by households on goods and services, excluding new housing. In developed countries it has become the largest component of Gross Domestic Product (GDP).

Common examples are cars, furniture, and appliances. Durable goods constitute about 10-15 percent of consumption expenditures. Nondurable Goods: These are tangible goods that tend to last for less than a year. Common examples are clothing, food, and gasoline

Q2: Explain the following concepts in detail?

a. Natural rate of unemployment

b. Frictional unemployment

c. Structural unemployment

d. Cyclical unemployment

e. Minimum wage law

f. Efficiency wage theory

Answer:

a. Natural rate of unemployment :

: The natural rate of unemployment represents the lowest unemployment rate whereby inflation is stable or the unemployment rate that exists with non-accelerating inflation. However, even today many economists disagree as to the particular level of unemployment that should be considered the natural rate of unemployment

Another def.:

The natural rate of unemployment is the rate of unemployment when the labour market is in equilibrium. It is unemployment caused by structural (supply-side) factors

b. Frictional unemployment

Frictional and structural unemployment are two different types of unemployment that occur in an economy. Frictional unemployment is not a direct result of economic factors and occurs when workers search for jobs. Conversely, structural unemployment is caused by shifts in the economy that make it difficult for workers to find employment

c. Structural unemployment

Cause:

One cause of structural unemployment is technological advances in an industry.3 that often happens in manufacturing. Robots have been replacing unskilled workers. These workers often must get training in computer operations if they want to keep working in the same industry.

Def: Structural unemployment is long-lasting unemployment that comes about due to shifts in an economy. This type of unemployment happens because though jobs are available, there's a mismatch between what companies need and what available workers offer

d. Cyclical unemployment

: Cyclical unemployment is unemployment that results when the overall demand for goods and services in an economy cannot support full employment. It occurs during periods of slow economic growth or during periods of economic contraction. One concrete example of cyclical unemployment is when an automobile worker is laid off during a recession to cut labor costs. During this downturn, people are buying fewer vehicles, so the manufacturer doesn't need as many workers to meet the demand

e. Minimum wage law

Minimum wage law is the body of law which prohibits employers from hiring employees or workers for less than a given hourly, daily or monthly minimum wage. More than 90% of all countries have some kind of minimum wage legislation. A good example is employees who work for tips. These employees can be paid a minimum of $2.13 per hour, as long as the hourly wage plus tipped income results in a minimum of $7.25 per hour

f. Efficiency wage theory

The idea of the efficiency wage theory is that increasing wages can lead to increased labour productivity because workers feel more motivated to work with higher pay.is an estimate of total value of all the final products and services turned out in a given period by the means of production owned by a country's residents. ... Net exports represent the difference between what a country exports minus any imports of goods and services

Q3: In the major cities in Pakistan, getting water supply by illegally using booster pumps attached to the city water line is not an uncommon practice. Consider two neighbouring households *A* and *B*. If neither switches on the pump, each gets 10 units of supply. If both turn on the pump, each gets 7 units (implicit here is that the electricity cost of using the pump in terms of buying water is 3 units). But if one switches on while the other does not, the former gets 15 units and the latter gets 5 units. Construct the payoff matrix. Using Nash equilibrium, what does the game theory predict in terms of behaviour towards switching on the booster pump?

Answer:

We have two players in the game theory. Household A and Household B. Strategies of Household A are listed in

when the water supply will Turn on their machinary first of all the HouseHolders who whave houses near to the Machinary fixed (Tubewells) will getting maximum UNITs of water..

Ruther then Householders who have houses far from the machinary..

For Example :-

HouseHold A turn on booster for maximum units of water supply.. Its illegal but through this process he will get urgent and max production of water ..

Household B :- if he turns on booster as well will not get the same amount of units becouse of distance..

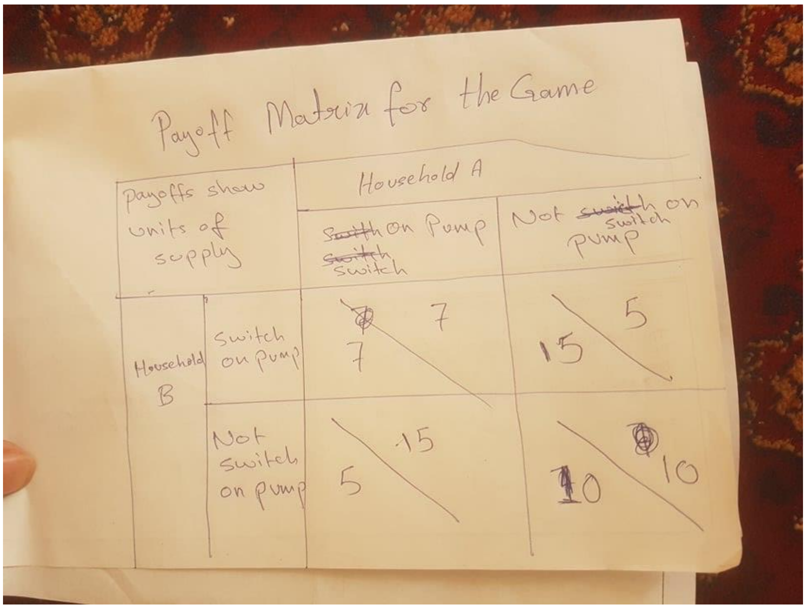
So the main Game between the A and B is S..

As per Formula we know !S=v*t

So

House hold A is getting greater Units then

houseHold B with same Bosster pumping



columns while strategies of Household B are listed in rows

Q4: Explain all the factors which can shift aggregate demand and aggregate supply?

Shifts in the Aggregate Supply-Aggregate Demand Model

The aggregate supply-aggregate demand model uses the theory of supply and demand in order to find a macroeconomic equilibrium. The shape of the aggregate supply curve helps to determine the extent to which increases in aggregate demand lead to increases in real output or increases in prices. An increase in any of the components of aggregate demand shifts the AD curve to the right. When the AD curve shifts to the right it increases the level of production and the average price level. When an economy gets close to potential output, the price will increase more than the output as the AD rises.

…

The slope of the aggregate demand curve shows the extent to which the real balances change the equilibrium level of spending. The aggregate demand curve shifts to the right as a result of monetary expansion. In an economy, when the nominal money stock in increased, it leads to higher real money stock at each level of prices. The interest rates decrease which causes the public to hold higher real balances. This stimulates aggregate demand, which increases the equilibrium level of income and spending. Likewise, if the monetary supply decreases, the demand curve will shift to the left.

AD = C + I + G + (X – M).

. Aggregate Supply

In economics, aggregate supply is defined as the total supply of goods and services that firms in a national economy produce during a specific period of time. It is the total amount of goods and services that firms are willing to sell at a specific price level in the economy

. Shift in Aggregate Supply

The aggregate supply curve may shift lab or market disequilibrium or labor market equilibrium. If labor or another input suddenly becomes cheaper, there would be a supply shock such that supply curve may shift outward, causing the equilibrium price in to drop and the equilibrium quantity to increase.

Reasons for Shifts

The short-run aggregate supply curve is affected by production costs including taxes, subsidies, price of labour (wages), and the price of raw materials. All of these factors will cause the short-run curve to shift. When there are changes in the quality and quantity of labour and capital the changes affect both the short-run and long-run supply curves. The long-run aggregate supply curve is affected by events that change the potential output of the economy

THANK YOU SIR

HOPE FOR GOOD RESULT