Q1: (a)What effect will each of the following have on the demand for small automobiles such as the Mini Cooper and Smart car?

Answer: **a.** Small automobiles become more fashionable so because of that huge some of people will get attracted to it so the demand increases. Most of the youngsters invest in such type of cars.

**b.** The price of large automobiles rises (with the price of small autos remaining the same).As people go for the options they can afford easily so thus by the increase in large automobiles which everyone cannot buy, thus by this way the demand of the small auto increases.

**c.** Income declines and small autos are an inferior good. Declining in income causes lesser demands.

**d.** Consumers anticipate that the price of small autos will greatly come down in the near future.

As consumers will soon face a decline in prices of small autos. By the amount decreased the demand increases

**e.** The price of gasoline substantially drops.

The main drawback of buying automobiles is not purchasing them but to maintain them it is a drawback thus by dropping price of gasoline one of their major expenses gets relaxed so by this way the demand increases.

QUESTION NO 1 (b)

Explain the law of demand. Why does a demand curve slope downward? How is a market demand curve derived from individual demand curves? (5 Marks)

ANSWER: The law of demand states that conditional on all else being equal,

When the price of a good increases the demand of that good decreases and conversely when the price decreases the demand increases.

If the wages of the consumer, prices of the relatable goods and the goods which the consumer prefer remains perpetual, then the amount of the good demanded by the consumer will negatively match up to the change in price of the good.

QUESTION NO 2 : Define monetary policy and explain in detail the instruments of monetary policy?

ANSWER:  Monetary policy is the macroeconomic  policy  laid down by the primary bank. It entails the management of money supply and interest rate and is the demand side economic policy used by the government of a country to gain macroeconomic objectives like inflation, consumption, growth and liquidity.

The early 1980 recession  in the United States began in July 1981 and ended in November 1982. One cause  was the Federal Reserve's contractionary monetary policy, which sought to rein in the high inflation. In the wake of the 1973 oil crisis and the 1979 energy crisis, stagflation began to afflict the economy.

The three key actions by the Federal government to expand the economy include a decreased discount rate, buying government securities, and lowered reserve ratio.

There are many instruments which can be justified but the three main instruments used by the central banks for monetary policy are

1: OPEN MARKET OPERATIONS:

It could be well explained by the process in which federal reserves buy or sells the government securities to control money supply. By this buying

And selling it is in the hands of the federal reserves to rather contract the money in the banking system or to expand it because it is happening in the open market so that the federal reserves can pursue their monetary policy . This instrument is one of the influential and most abundant part of the monetary policy cause it helps in the development of the market.

2: DISCOUNT RATE: A rate used for discounting bills of exchange is known as discount rate.

The basic way to calculate a discount is to multiply the original price by the decimal form of the percentage. To calculate the sale price of an item, subtract the discount from the original price. You can do this using a calculator, or you can round the price and estimate the discount in your head. The discounted rate is the expected rate for the return in investment. it estimates current value of an investment or business based on its expected future cash flow. The current rate is 0.25%

3: RESERVE REQUIRMENTS:

Reserve requirements are the amount of funds that a bank holds in reserve to ensure that it is able to meet liabilities in case of sudden withdrawals. Reserverequirements are a tool used by the Federal Reserve to increase or decrease money supply in the economy and influence interest rates.

The main objective of the reserve requirement is to sway the money supply. As the low of reserve requirement allows more money in the banking system. For the current reserve requirement It required that all banks with more than $127.5 million on deposit maintain a reserve of 10% of deposits. Banks with more than $16.9 million up to $127.5 million must reserve 3% of all deposits.

Q3: Explain the following. (10 Marks)

1. Deduction & induction method
2. Micro & Macroeconomics
3. Positive science & Normative science
4. Any of the four principles of economics
5. Deduction and induction method:

It is also called the analytical method . It consist of three stages In the deduction method we move from general to specific .

1:observation

2: logical reasoning

3: inference and testing by means of further observations

Induction method :

In the induction method we move from specific to general. This is also known as the empirical formula. It moves from an individual to a whole universe. It is an ascending process.

Inductive reasoning is a method of reasoning in which the premises are viewed as supplying some evidence for the truth of the conclusion; this is in contrast to deductive reasoning.

Steps Involved in Inductive Method

Observation of the issue.

Formation of hypothesis.

Generalization and.

Verification.

MICRO AND MACRO ECONOMICS:

microeconomics deal with the individual economic units. These include the people of work daily for handsome wages in which there are consumers, workers, landlords and other people who holds a business thus it deal with the part of individual in the growth of the economy

MACRO ECONOMICS:

Micro economics explains how to make economic decisions

For instance it explains why a customer is buying a good for him , what made him do that on a regular basis , what is his need to buy it

What happens when their salaries are low and they are unable to buy it and what happens when the price of the good gets high. It also deal with that part just like for example a building is about to build and they need workers

How many workers should be there , which worker can work where, when to start , and how much work should be divided giving respect to the number of workers.

POSITIVE SCIENCE AND NORMATIVE SCIENCE:

As we have studied that economics is a science but the main question comes up whether it is a positive science or normative science.

Positivescience is the application of formal analysis to empirical science. We do not wish to overstate the scope of such applications, and recognise the possibility that valuable scientific results might be obtained whose character defies formal analysis.

NORMATIVE SCIENCE:

In the normative science, economics involve value judgements

Its is prescriptive in nature what shows what things should be like, or what they ought to be

It is influenced by the questions like what is the salary rate, what product or fruit should be supplied all over the country or what is actual national income rate

But most it is not used because of the judgements of individuals. Like if there are 10 people in the room the perspective of all the 10 would be different thus the normative economics involves the judgements of individuals and thus for deriving laws and theories it shall not be used.