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DEPARTMENT: BBA

SEMESTER: 2

SUBJECT: MACROECONOMICS

SUBMITTED TO: MAM WAJIHA AMIN

**Q1:** Discuss the impact of corona virus on Pakistan’s economy.

 (You may consider the areas like demand, supply, prices, market , employment, inflation etc).

Ans.

**The pandemic termed the COVID-19 (coronavirus) has exponentially spread across the globe since the first case was reported in Wuhan China in late December 2019. The virus has led to more than 3.1 million cases and 215 thousand deaths across the world. And the numbers are rising. In order to ‘flatten the curve’ of growing numbers of infected people, governments around the world have been forced to impose complete lockdown of their societies and businesses.**The main concern for the Government of Pakistan (GOP) has been the economic impact the lockdown will have on the poor segments of the society, and fragile economy on the whole. The Pakistani Stock Market’s benchmark KSE-100 Index has plunged by over 25% in March, and the rupee by over 6%. Pakistan’s economy is projected to face a loss of up to 4% of its GDP due to disruptions in trade, potential decline in FDI and remittances, and fluxes in other sectors such as aviation, tourism and hospitality, caused by the lockdown imposed in the country. The dire economic effects can already be seen, with widespread lockdowns freezing most normal activity, export orders cancelled and vast numbers of daily workers suddenly jobless.

Meanwhile, despite a $7.5 billion relief package, both central and provincial governments have struggled to respond as the number of confirmed cases continues to rise daily. As the situation stands, much more will be needed for Pakistan to effectively address the crisis.

After the initial grace period, the shortfalls in revenue will result in salary cuts and then finally, job losses. According to PIDE(Pakistan Institute of Development Economics), there will losses of jobs in the millions, particularly for semi-skilled and daily wage earners. Around 2.4% of the Annual GDP will be lost due to COVID-19, which is enough to send the country into a spiraling recession.

**Q2:** Explain the functions of Central Bank.

Ans.

**Functions of Central Bank**

 **1.Bank of Issue:**

Central bank now-a-days has the monopoly of note-issue in every country. The currency notes printed and issued by the central bank are declared unlimited legal tender throughout the country.

2.Banker, Agent and Adviser to the Government:

Central bank, everywhere, performs the functions of banker, agent and adviser to the government.

*The central bank operates as the government’s banker, not only because it is more convenient and economical to the government, but also because of the intimate connection between public finance monetary affairs.*

#### 3.Custodian of Cash Reserves:

All commercial banks in a country keep a part of their cash balances as deposits with the central bank, may be on account of convention or legal compulsion. They draw during busy seasons and pay back during slack seasons. Part of these balances is used for clearing purposes. Other member banks look to it for guidance, help and direction in time of need.

#### 4.Custodian of Foreign Balances:

Under the gold standard or when the country is on the gold standard, the management of that standard, with a view to securing stability of exchange rate, is left to the central bank.

#### ****5.****Lender of Last Resort:

Central bank is the lender of last resort, for it can give cash to the member banks to strengthen their cash reserves position by rediscounting first class bills in case there is a crisis or panic which develops into ‘run’ on banks or when there is a seasonal strain. Member banks can also take advances on approved short-term securities from the central bank to add to their cash resources at the shortest time.

#### 6.Clearing House:

Central bank also acts as a clearing house for the settlement of accounts of commercial banks. A clearing house is an organization where mutual claims of banks on one another are offset, and a settlement is made by the payment of the difference. Central bank being a bankers’ bank keeps the cash balances of commercial banks and as such it becomes easier for the member banks to adjust or settle their claims against one another through the central bank.

#### 7.Controller of Credit:

The control or adjustment of credit of commercial banks by the central bank is accepted as its most important function. Commercial banks create lot of credit which sometimes results in inflation.

The expansion or contraction of currency and credit may be said to be the most important causes of business fluctuations. The need for credit control is obvious. It mainly arises from the fact that money and credit play an important role in determining the level of incomes, output and employment.

#### 8.Protection of Depositors Interests:

The central bank has to supervise the functioning of commercial banks so as to protect the interest of the depositors and ensure development of banking on sound lines.

The business of banking has, therefore, been recognized as a public service necessitating legislative safeguards to prevent bank failures.