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**Q#1 (a) what is Budget and how Budget is formulated? Critically analyze budget 2020.**

**Definition:**

A budget is a financial document used to project future income and expenses.

 a budget plans future savings and spending as well as outlining projected income and [expenses](https://debitoor.com/dictionary/expense).

Budgeting may be carried out by individuals or by companies that wish to estimate whether they can continue to operate within the projected income and expenses. A budget can be drawn up for each [financial year](https://debitoor.com/dictionary/accounting-year) and contains information on the estimated value of sales and value of costs.

This data allows a company to see how the coming accounting period is likely to end. The actual performance of the business can then be measured against the information provided in this proposed plan.

## Types of budget

Different budgets can be created depending on what particular aspect of a business requires focus. There are three that are the most popular:

* **Forecast Budget**

For a forecast budget, estimated figures are prepared. These figures can then be adjusted when the actual figures are gathered. In a forecast budget, figures from the previous year are often used as estimates for the current year. As more actual figures are factored in to the estimates, the forecast becomes more realistic and accurate.

* **Performance Budget**

A performance budget involves estimates made for upcoming revenue and expenses. This is done by assessing each item on the income statement and providing a percentage of expected change from the previous year.

If a smaller-sized company is involved, the budget can be based on the company as a whole. A larger company will create a budget for each department. Departmental budgets would then be combined to create a total for the company.

Performance budgets are often based on a service rate or on a specific project. As the company grows, performance budgets may be drawn up on a ‘per project’ basis.

Budgets are also usually created for anticipated projects and, as in the case of the forecast budget, these take into account an overview of expenses against anticipated revenue.

* **Cash Budget**

A cash budget forecasts how [cash](https://debitoor.com/dictionary/cash) will be used throughout the coming year. It usually focuses on the near future since the goals and strategies of a company can change with circumstances. The budget predicts future expenditures and cash receipts for a specific time period.

This particular budget allows a company to gain some insight on whether income will cover expenditure and when it might be necessary to seek external funds. Find out more about [cash budgets](https://debitoor.com/dictionary/cash-budget).

**Formation of budget in Pakistan 2020.**

In Pakistan, the general budget is known as the Federal Budget. In the Constitution, it is referred to as the Annual Budget Statement (ABS), prepared and presented by the Federal government before the National Assembly (lower house) every year. It is a statement of the estimated receipts and expenditure of the Federal government in a particular financial year. The financial year starts on 1st July and ends on 30th June.

**Structure of Pakistan Budget:**

The Federal Budget in the country comprises of Revenue Budget and Capital Budget. While the Revenue Budget is constituted by both Revenue Receipts as well as the Current/Non-development Expenditures.

* 1. Current and Developmental Expenditure:

he distinction between Current/Non-developmental and Developmental Expenditure is significance one. These two form together the total budgetary expenditure of the federal budget. The Current expenditures are for day-to-day recurring expenditures or non-developmental expenditures of the government. This includes, among others, the General Public Services such as maintaining administrative, executive and legislative organs of the country, servicing of foreign debt, foreign loan repayment and servicing of domestic debt, maintaining national defense and public affairs of the country

* 1. Resource Mobilization:

After determining the priority and quantum of expenditure under different heads, the government work out the mobilization and estimation of resources to meet the expenditure needs. The resource mobilization is done through two sources-Internal Receipts and External Receipts.

* Internal Receipts:

The internal resources come through Revenue Receipts (tax & non-tax), net Capital Receipts, financing of PSDP by the provinces and change in the provincial cash balance. Revenue Receipts is further divided into Principal Heads of Tax Revenue- (Direct Taxes and Indirect Taxes and Surcharges), and Other Head of Revenue (Nontax Revenue)-the Income from Property and Enterprises, receipts from Civil Administration and miscellaneous. Net Revenue Receipts (NRR) can be obtained by deducting ‘Transfer to Provinces’ from Revenue Receipts.

* External Receipts:

External resources/ receipts come from foreign loans and grants. The external borrowing is called for to meet the shortfall in the estimation of internal receipts. External resources mainly comprise (i) loans and credits from friendly countries and specialized international agencies and (ii) grant assistance under specific country programmes. The Foreign Aid (Loans, Credits and Grants) is broadly categorized as project aid, commodity aid and other aid.

**Budget Cycle:**

The budget cycle usually has four stages:

* + 1. Budget formulation, when the budget plan is put together by the executive Branch of government;
    2. Enactment, when the budget plan may be debated, altered, and approved by the legislative branch;
    3. Execution, when the policies of the budget are carried out by the government; and
    4. Auditing and assessment, when the actual expenditures of the budget are accounted for and assessed for effectiveness.

**Preparation & formulation stage:**

The initial formulation of the budget occurs almost exclusively within the executive branch of government, though it can include a number of actors within the branch.

**Enactment stage:**

The second stage of the budget cycle occurs when the executive's budget is discussed in the legislature and consequently enacted into law. This stage begins when the executive formally proposes the budget to the legislature.

**Implementation Stage:**

The next stage of the process occurs once the budget has been enacted. Governments differ widely in how they regulate and monitor spending to ensure adherence to budgets. In some cases, the Treasury (or Finance Ministry) exercises strong central control over spending, reviewing allocations to departments and approving major expenditures. Where departments enjoy more independence, treasuries will monitor expenditures by requiring, for instance, regular reporting by each department of its spending.

**Audit:**

The last stage in the budget cycle includes a number of activities that aim to measure whether there is an effective use of public resources. Ideally, the executive 11 branch should report extensively on its fiscal activities to the legislature and the public. These fiscal activities also should be subject to regular review by an established independent and professional body, such as audit institutions or an Auditor General. The audit office should have the capacity to produce accurate reports in a timely manner.

**Q#1 (b)** What is Fiscal Policy and what are the channels of Revenue in Fiscal Policy?

**Definition:** [Fiscal policy](https://www.investopedia.com/terms/f/fiscalpolicy.asp) is the means by which a government adjusts its spending levels and [tax rates](https://www.investopedia.com/terms/t/taxrate.asp) to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Here's a look at how fiscal policy works, how it must be monitored, and how its implementation may affect different people in an economy.

Fiscal policy is based on the theories of British economist [John Maynard Keynes](https://www.investopedia.com/terms/j/john_maynard_keynes.asp). Also known as [Keynesian economics](https://www.investopedia.com/terms/k/keynesianeconomics.asp), this theory basically states that governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence, in turn, curbs inflation (generally considered to be healthy when between 2% and 3%), increases employment, and maintains a healthy value of money. Fiscal policy plays a very important role in managing a country's economy.

## Types of fiscal policy

There are two main types of fiscal policy: expansionary and contractionary. Expansionary fiscal policy, designed to stimulate the economy, is most often used during a recession, times of high unemployment or other low periods of the business cycle. It entails the government spending more money, lowering taxes or both. The goal is to put more money in the hands of consumers so they spend more and stimulate the economy.

Contractionary fiscal policy is used to slow economic growth, such as when inflation is growing too rapidly. The opposite of expansionary fiscal policy, contractionary fiscal policy raises taxes and cuts spending.

**Channels of growth:**

1. **High-Income Countries**

In the standard Keynesian macroeconomic model, fiscal policy fosters private sector investment by sustaining or increasing domestic demand. The positive effect on growth of fiscal expansions can be (partially or entirely) offset by adverse effects of deficit financing on investment through higher interest rates, inflationary pressures, and external sector instability. The decline in private investment following fiscal expansions—often referred to as a “crowding out” effect because public spending displaces private investment—can also occur because increases in interest rates affect perceptions of fiscal sustainability.

1. **Low-Income Countries**

The above fiscal-policy transmission channels are not expected to be similarly effective in low-income countries. Wealth effects require the presence of adequately developed financial markets to facilitate increased private expenditures in response to perceived higher permanent income. Financial markets may not be sufficiently developed to facilitate such responses in poorer countries, where wealth is also often not principally held in the form of financial assets. When intertemporal exchange through financial markets cannot take place, current private spending cannot increase growth in response to perceived future increases in private-sector income.

1. **Factor Productivity and Public Sector Governance**

An aggregate production function can be represented in the form:

i Y AVi α = ,

where Y is aggregate output, Vi indicates factor inputs, it indicates the elasticity of output for input i, and A is an index of total factor productivity. Growth of real output is given by the combined components of increased factor productivity through changes in A and increased availability of factors of production through increases in a factor-input quantity Vi, with the linkage emphasized by endogenous growth theory that investment, in particular in human capital, increases factor productivity and so staves off decreasing returns.8 Beyond increased investment (and the productivity consequences of increased investment), higher growth can occur if changes take place that directly increase factor productivity.

1. **The Composition of Public Spending and Factor Productivity**

For any level of budget deficit, the composition of public spending is expected to affect factor productivity. If public sector employees engage in bribe-seeking and rent-seeking activities, a change in the composition of public spending away from wages to more productive uses is predicted to increase factor productivity and thereby increase growth.

1. Governance and Investment
2. F. The Fundamental Role of Governance.

**Q# 2 (a):** What is Trade? Differentiate between Balance of Payment and Balance of Trade.

**Trade:** Trade is a basic economic concept involving the buying and selling of goods and services, with compensation paid by a buyer to a seller, or the exchange of goods or services between parties. Trade can take place within an economy between producers and consumers.

Trading globally between nations allows consumers and countries to be exposed to goods and services not available in their own countries. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewelry, wine, stocks, currencies, and water. Services are also traded: tourism, banking, consulting, and transportation. A product that is sold to the global market is an [export](https://www.investopedia.com/terms/e/export.asp), and a product that is bought from the global market is an [import](https://www.investopedia.com/terms/i/import.asp). Imports and exports are accounted for in a country's current account in the balance of payments.

| **Parameter of Comparison** | **Balance of Trade** | **Balance of Payments** |
| --- | --- | --- |
| What is it? | It is the monetary difference between a country’s export and import | It is the monetary difference between transactions of the residents of a country and the rest of the world |
| Also known as | Commercial balance or Net exports | Balance of International payments |
| Abbreviated as | NX | BOP or B.O.P |
| Currency | Includes the currencies of countries where trade(import and export) happens. | Estimated in single currency i.e., the currency of a country |
| What impact is created when it is positive? | It means that the country has a Trade surplus i.e., exports more | Country’s currency faces appreciation |
| Formula to calculate | Country’s (Export-Import) | Country’s Fund flow (Within the country - rest of the world) |
| How to fix a deficit? | By saving more and consuming less foreign goods. | Bringing policies that support healthy competition in the domestic industry |
| Steps that are usually taken by Governments to improve it? | Imposing higher import taxes to lessen the import of goods | Encouraging people to use products that are manufactured within the country |
| What is the Net Effect? | It may be positive or negative or zero. | It is always zero. |

As their name suggests, Balance of Trade and Balance of Payments are financial terms that reflect the economy of a nation. The former is a statistical calculation of a nation’s trade whereas the latter is a statistical calculation of transactions.

In a nutshell, they both deal with the monetary values of a nation through imports, exports, and related payments.

**Q# 2 (b): What are the major macroeconomic challenges of Pakistan?**

Pakistan was one of the top 10 fastest growing developing countries between 1960 and 1990 recording an annual average growth rate of 6 per cent. The structure of the economy was also transformed during this period with the share of agriculture coming down from 50 per cent to 20 per cent. The subsequent 25 years have, however, brought about a significant decline in growth rates and in more recent seven years, it has lagged behind other South Asian countries.

**Growth, Poverty and Inequality:**

The earliest published data on poverty incidence available pertains to 1963–1964 and therefore it is difficult to estimate as to what proportion of population was living below the poverty line at the time of independence. The provinces constituting Pakistan were relatively backward compared to the provinces inherited by India. Also, a large migration of refugees facing dire economic conditions took place in the early years of Pakistan’s formation. Thus, it may be safe to guesstimate that 50 to 60 per cent of the population was living below poverty in 1950. The most recent survey carried out in 2004–2005 indicates that this proportion has halved to 24 per cent and came further down to 18 per cent by 2011–2012.

**Structural Reforms:**

Significant efforts were made in unilaterally liberalizing the trade regime. The maximum tariff rate was reduced to 25 per cent with the average tariff rate down to just 9 per cent. The number of duty slabs was reduced to four. Quantitative import restrictions were eliminated except those relating to security, health, public morals, and religious and cultural concerns. The statutory orders that exempted certain industries from import duties or provided selective concessions to privileged individual firms were phased out. Import duties on 4,000 items were reduced. A number of laws were promulgated to bring the trade regime in conformity with World Trade Organization (WTO) regulations. These include antidumping and countervailing measures and protection of intellectual property rights. A stable exchange rate policy helped maintain predictability and competitiveness of Pakistani exports.

**Economic Governance:**

The cornerstone of the governance agenda in the 2000s was the devolution plan which transferred powers and responsibilities, including those related to social services, from the federal and provincial governments to local levels. Development effort is driven at the local level by priorities set by elected local representatives, as opposed to bureaucrats sitting in provincial and federal capitals. Decentralization, de-concentration, accountability and people’s participation in their local affairs could have improved the delivery of basic services to the citizens at the grassroots level.

**Faltering of Economic Growth since 2008:**

The question naturally arises: If these structural reforms were implemented then why has economic growth faltered and stagnated since 2008 and what can be done to get back on the trajectory of high growth rates? Five explanations can be advanced in this regards.

**Challenges for the Future:**

Structural reforms in the areas of finance, tariff and tax administration, privatization of state-owned enterprises, creation of an enabling environment for the private sector, liberalization of foreign exchange and FDI, market orientation and openness to the global economy have brought about at least 2-percentage point increase in the total factor productivity. If this hypothesis is found to be empirically valid, then the output potential of Pakistan’s economy should have risen from 5 to 7 per cent annual growth. The cyclical fluctuations around this mean would either result in lower or higher actual outcomes depending on the agriculture production variability, external economic environment such as prices of oil and commodities or demand for Pakistani products, macroeconomic stability, etc. It would therefore be fair to surmise that the growth rates should range between 6 to 8 per cent annually in the next decade if Pakistan gets back to its growth trajectory sooner than later and all other things remained constant. Let us analyze the pre-conditions for future growth in Pakistan.

**Intra-Regional Trade: Failure and Future Prospects:**

**Climate Change: Tough Choices:**

**Reaping Benefits of Technology: The Sooner the Better:**

**Q#3 How COVID-19 has affected our economy and how we can recover from the economic losses?**

Corona virus (COVID-19) is one of the most dangerous and disaster able virus in the world during contemporary times, which has been affecting most of the developed and developing countries. Although having all equipment’s to Europe and USA. But, has losing its battle to control on this coronavirus. When it is stretched in Wuhan, China and the whole world was in frivolous behavior toward China after the breakout of virus. President of United States of America Donald Trump called it “Chinese virus” and “Wuhan virus”. On the other hand, Chinese emboldened to build coronavirus hospitals in instantaneous way to overcome pandemic and epidemic disease on which was not intensified other than China in January. It took very short period during rambling the virus in Wuhan, Hubei province of China. And, Chinese government was too much conscious on virus to acknowledge it to be spilled throughout in China. At the same times, health emergency was declared in some areas after considering it at lockdown solution. The second largest economy was hit after taking decisions to be on lockdown in cities and flights were suspended over all in China for short times. Therefore, China had lost $200 Billion and1.9 GDP within 6months. Finally, China is the first victim of the virus and reopening with $45 billion more attractive worth of markets Last month, it declared, Wuhan free virus city. Even, China lost some cost on it. Together with, to overcome on this virus. However, Chinese government is still conscious on screening system, making test kits, masks, and gloves for donating to nations affected by COVID-19.

Whenever, first symptom was seen in Sindh, men came from Iran through Tafton border in Pakistan. This area is not developed yet on medical facilities to give any abruption at screening and centers for seeking the fulfillments necessities at border for pilgrims, who were not aware from symptoms of coronavirus themselves. And, most of the people came to Sindh, who are inhabitants in different areas of Sindh mostly in Sukkur division during the outbreak of virus. At the provincial level, it was only Sindh government had taken so many steps to bring about virus through screening, quarantine and research centers in Karachi, Hyderabad, and Sukkur. Since sprawling of virus in Sindh was deteriorated due to lack of screening availability without screened, who came from Iran. After all, Sindh government showed its potential and responsibility at its own behalf of way to create availabilities and remedies through conscious guidance and proper managements lies down through proper way at the level of shifting quarantine centers in the Sindh. Similarly, most of the symptoms of virus screened and some positive cases were found in some areas of Sindh. Comparatively, Provincial governments had taken proper decisions for the betterment of people, but federal government was not directed and lack ofits potential leadership to take bitter and immediate decisions to dislodge the virus at limited areas.

In this epidemic, Pakistan’s GDP went below 1.5 % due to rise of $ dollar from 161.60 up to 166.13 on March 26, 2020. Pakistan lost $4.95 bn in agriculture, business, manufacturing after the outbreak of coronavirus. Government had arranged $4 billion additional financial assistance from multilateral lending and aid agencies including and $ 1.4bn additional fund from IMF on Islamabad’s request of financial assistance under IMF’s Rapid Financing Instruments (RFI) to offshore the foreign exchange reserves and budgetary fund on impact of coronavirus epidemic. RFI fund is available for low income countries to sustain their economy. The Asian development bank and world bank both gave $588 million to tackle the immediate cause of economic inflation and coronavirus.

The federal government claimed on undefined and weak administrations to bring remedies about coronavirus to tackle the whole scenario on critical time of Pakistan. The chief executive of Pakistan has been seeing on T.V since outbreak of virus, while briefing about coronavirus, Imran Khan claimed “Don’t worry but corona will spread and nation to be ready”. it created more fabrication in between Federal and Federating units. During, the meeting of National Coordination Commission a committee was formed which will look upon all abrupt decisions must be taken within 10 days based on situation about health emergency and lockdown. Furthermore, Federal government was not interested about the lockdown throughout in country, but virus has affected 186,598 people and 3,716 died over all in Pakistan. While, Sindh government declared lockdown in province on the behalf of its position and situation.

Federal government is still unclear of its policies to formulate for mostly affected in the COVID-19 to provide food shelter throughout country, Especially, daily wager would not be able to earn due to enduring smart lockdown. However, Government should have to coordinate with provinces through clear and enough directions because all political leaders must put out their ego on other side should be persuaded within themselves for the cause of Pakistani nation. It is tough time on our county to be solved and provides all necessities to doctor and nurses are also threated by virus, but government must show its seriousness on coronavirus pandemic.