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Q1. Select the best suitable answer.

1. A

2. D

3. D

4. C

5. B

6. D

7. D

8. B

9. A

10. D

Q2. Give brief answer of the following questions.

1. Thinking about the definition of GDP,explain why transfer payments (zakat,donation etc) are excluded from the calculation of GDP?

ANS.

Definition of GDP: It is the total market value of all the final goods and services produced in a specific time period.

Why zakat and donation are excluded from GDP:

Zakat and donation are not included in GDP because it does not reflect production there fore it is not included in GDP.

2. Why Net national product (NNP) isn't commonly used for the calculation of national income figures?

ANS.

Net national product is not commonly used for the calculation of national income figures because the calculation and depreciation is not an easy task and different business use different method for depreciation which may over or under estimate their incomes.

3.The bureau of labor statistics announced that in december 1998,of all adult americans 138,547,000 were employed , 67,723,000 were not in the labor force. how big was the total labor force? what was the unemployement rate?

ANS.

Formula:

unemployement rate=unemployed workers/total labour force * 100

unemployement rate=6,021,000/144,568,000

unemployement rate=0.04164

0.04164 *100   =4.1648%

so here 4.1648% is the unemployement rate

4. What is the concept of "natural rate of unemployement"?

ANS.

Natural rate of unemployement: The natural rate of unemployment is a combination of frictional, structural, and surplus unemployment.Even a healthy economy will have this level of unemployment.In countries which are concerned with prevention of high inflation and this rate is the lowest level that can be sustained.

5. Briefly discuss okun's Law.

ANS.

Okun's Law:okun's law describe about the countries unemployement rate and growth rate of an economy.Also Okun's Law describes the relationship between production output and employment.It also tells that how much country GDP will lost when unemployement rate is above its natural.The

law also states that "for every one percent increase in unemployement will results in two percent loss in GDP.

6. Classical macroeconomics considers the two assumptions of

- **Money as just the medium of exchange and automatic adjustment machanism.Briefly discuss these two?**

ANS.

Money as the medium of exchange:

Classical macroeconomists consider only a single function of money that is the medium of exchange and ignores the other function because Money is the most important function and it is as a medium of exchange to facilitate transactions. Without money, all transactions would have to be conducted by barter, which involves direct exchange of one good or service for another.

Automatic adjustment mechanism:

classical are of the opinion that wages and prices are flexible and the market will automatically adjust them according to the forces of demand and supply so any change or problem will itself be sort out due to the flexible nature of prices.

Q3. Briefly explain some of the uses of national income figures?

ANS.

- Provides information on the contribution of each sector of the economy to the national income.

- Provides information that is used to measure the standard of living in the country.

- Per capita income.

- Provides information on the distribution of income.

- Helps in getting foreign loan.

- Prepration of national budget and other national plans.

- economic comparison of different countries.

- Product perfomance of an economy.