Monetary Economics

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Q.1

 a) What is Money and why it is important for any economy

Ans:

       Money is a record bill which is accepted as payment for the exchange of any goods or services in a country .

There are few functions of money as followed

1) medium of exchange

2)unit of account

3)store of value

4)standard of deferred payment

The importance of money in economic :

Money have a unique position in the new economy and in its absence the economy will fall like a pack of cards

Money determines:

1)Wealth

2)Money is a unit of account

3)A store of value

4)Medium of exchange

5)It has no intrinsic value  and it is reliable

6)Money is accepted worldwide in trade of goods and services

7)It is used to measure wealth

8)It is regulated by governments

b). What is the Barter system and why it vanished?

Ans).

        This is an old method of exchange and has been used for centuries and long before money was invented.people exchanged commodities for other commodities in return.

History of the barter system goes all the way back to 6000 BC .

The barter system failed because of these points

1. **Lack of Double Coincidence of Wants:**

Barter transactions can be possible only when two persons desiring exchange of product should have such product which are mutually needed by each other.

2. **Division Issues:**

The problem relates to the exchange of such goods which cannot be divided into pieces, because in this kind of situation, a big product like camel cannot be divided into small pieces for making payment of the goods of smaller value.

3. **Lack of a Common Measure of Value:**

The biggest problem in the barter exchange was the lack of common measure of value it also refer to measurement of wealth or value of different products

4. **Lack of Store of Value:**

In a barter economy, the store of value could be done only in the form of goods. However, since goods are perishable and they cannot be kept for a long time in the store. Because of this difficulty, store of value was very difficult because of barter system there was no progress around the world

Q.2 Explain in detail the Primary and secondary functions of Money.

Ans.

Money is the basic medium of exchange that is issued under the law of government and act as the legal tender for the whole country. The functions of money can be classified into two categories

1. **Primary function :**

It includes the money as a medium of exchange and money as a measure of value ,

As a medium of exchange,it refers to a function in which money is considered as a mode of exchanging goods.due to this coincidence of wants was solved

As a measure of value, it refers to a function that helps in determining the value of goods and services. Money is taken as the tool while measuring the value of goods and services

1. **Secondary Function :**

It includes the money as the store of value and money as the standard of deferred payment,

As a store of value,it refers to the function of money that helps individual in storing their wealth in the form of money ,

As a standard of deferred payment , Deferred payment refers to the payments made on liabilities.  it is one of the most important function of money

Q3.

a). What are Financial Markets and what are their roles in economic development?

Ans.

       Financial markets refers to any marketplace where the trading of securities occurs, including

Stock market,

Bond market,

T Bills

 Financial markets are vital for the operations of capitalist economies .

Roles of Financial Markets are as followed :

1. Financial markets plays a vital role in the allocation of resources and operations of modern economy

2. It creates products that provide a bridge between the lender and borrower.

3. Financial markets are are also the factor for capital in the economy by the production of goods and services

4. It provides an efficient process by which income that is not still used can still contribute  to aggregate demand .

5.  It also contributed to the nation’s growing interest in more sophisticated financial instruments..

6.Firm raises funds by trading financial assets like shares

b). Inflation is one of the major economic problems in Pakistan. What are the causes of inflation and what are its remedies with reference to Pakistan?

Ans.

      There are five main causes of inflation

1. Demand-pull inflation – aggregate demand growing faster than supply
2. Cost-push inflation – For example, higher machine prices feeding through into higher costs.
3. Devaluation – increasing cost of imported goods, and also the boost to local demand.
4. Rising wages – higher wages increase firms costs and increase consumers’ income to spend more.
5. Expectations of inflation – causes workers to demand salary increases and firms to increase prices

**Remedies with reference to Pakistan:**

Few policies Pakistan Government have to initiate to control inflation they are as followed

1.Monetary policy

2.Supply side policy

3.Fiscal policy

4.Exchange rate policy

5.Wage control

6.Monetarism

Cost-push inflation is harder to control so it is maybe better to let the current inflation factors come to the end by itself.

        The End