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**SUBJECT: MACROECONOMICS**

**SUBMIT TO: WAJEEHA AMEEN**

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

**ANS.** The main concern for the Government of Pakistan 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. In the third week of March, Pakistani authorities projected a GDP loss of PKR 1.3 trillion due to supply shocks, disruption in foreign trade, suspension of operations of service and manufacturing industries 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.

**Q2. Explain the function of central bank.**

**ANS.** The main function of a central bank is to act as governor of the machinery of credit in order to secure stability of prices.

**1. Issue of Currency:**

The central bank is given the sole monopoly of issuing currency in order to secure control over volume of currency and credit. These notes circulate throughout the country as legal tender money. It has to keep a reserve in the form of gold and foreign securities as per statutory rules against the notes issued by it.

**2. Banker to Government:**

Central bank functions as a banker to the government—both central and state governments. It carries out all banking business of the government. Government keeps their cash balances in the current account with the central bank. Similarly, central bank accepts receipts and makes payment on behalf of the governments. Also, central bank carries out exchange, remittance and other banking operations on behalf of the government. Central bank gives loans and advances to governments for temporary periods, as and when necessary and it also manages the public debt of the country.

**3. Banker’s Bank and Supervisor:**

There are usually hundreds of banks in a country. There should be some agency to regulate and supervise their proper functioning. This duty is discharged by the central bank.

**Central bank acts as banker’s bank in three capacities:**

1. It is the custodian of their cash reserves. Banks of the country are required to keep a certain percentage of their deposits with the central bank; and in this way the central bank is the ultimate holder of the cash reserves of commercial banks.
2. Central bank is lender of last resort. Whenever banks are short of funds, they can take loans from the central bank and get their trade bills discounted. The central bank is a source of great strength to the banking system.
3. It acts as a bank of central clearance, settlements and transfers. Its moral persuasion is usually very effective so far as commercial banks are concerned.

**4. Controller of Credit and Money Supply:**

Central bank controls credit and money supply through its monetary policy which consists of two parts—currency and credit. Central bank has monopoly of issuing notes (except one-rupee notes, one-rupee coins and the small coins issued by the government) and thereby can control the volume of currency.

**5. Exchange Control:**

Another duty of a central bank is to see that the external value of currency is maintained. For instance, in Pakistan, the Reserve Bank of Pakistan takes steps to ensure external value of a rupee. It adopts suitable measures to attain this object. The exchange control system is one such measure. Under exchange control system, every citizen of Pakistan has to deposit with the Reserve Bank of Pakistan all foreign currency or exchange that he receives. And whatever foreign exchange he might need has to be secured from the Reserve Bank by making an application in the prescribed form.

**6. Lender of Last Resort:**

When commercial banks have exhausted all resources to supplement their funds at times of liquidity crisis, they approach central bank as a last resort. As lender of last resort, central bank guarantees solvency and provides financial accommodation to commercial banks (i) By rediscounting their eligible securities and bills of exchange (ii) by providing loans against their securities. This saves banks from possible failure and banking system from a possible breakdown. On the other hand, central bank, by providing temporary financial accommodation, saves the financial structure of the country from collapse.

**7. Custodian of Foreign Exchange or Balances:**

It has been mentioned above that a central bank is the custodian of foreign exchange reserves and nation’s gold. It keeps a close watch on external value of its currency and undertakes exchange management control. All the foreign currency received by the citizens has to be deposited with the central bank; and if citizens want to make payment in foreign currency, they have to apply to the central bank. Central bank also keeps gold and bullion reserves.

**8. Clearing House Function:**

Banks receive cheques drawn on the other banks from their customers which they have to realize from drawee banks. Similarly, cheques on a particular bank are drawn and passed into the hands of other banks which have to realize them from the drawee banks. Independent and separate realization to each cheque would take a lot of time and, therefore, central bank provides clearing facilities, i.e., facilities for banks to come together every day and set off their chequing claims.

**9. Collection and Publication of Data:**

It has also been entrusted with the task of collection and compilation of statistical information relating to banking and other financial sectors of the economy.

* **THE END.**