

**MID TERM-MID EXAM**

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**SUBJECT:  
MONETARY ECONOMICS**

**SUBMITTED TO:  
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## **Q1:What is Money and how it has overcome the issue of the Barter system?**

**Ans:MONEY:** Money is any acceptable that is broadly utilized and acknowledged in exchanges including the exchange of products and ventures starting with one individual then onto the next. Money is important for any economy. Without money the world will become problematic.

Business analysts separate among three distinct sorts of money.

### **HOW IT OVERCAME THE THE ISSUE:**

Money conquers the issue of trade framework by supplanting the C-C economy with the fiscal economy (where 'C represents product).

(i) In the deal framework, there was an issue of a twofold incident of needs. It was extremely hard to coordinate the desires of two distinct people. Consequently, money was imagined to defeat the issue of twofold. the happenstance of needs.

(ii)When there was no money, it was hard to give regular units of significant worth to products or items, yet when money was advanced, it gave a typical unit of significant worth to each great administration.

(iii)Money encourages the legally binding future installments which were unthinkable at the hour of trade framework.

## **Q2(a):What are the types of money and explain its primary Functions.**

**Ans: TYPES OF MONEY:**

**COMMODITY MONEY:** this type of money is the simplest and the oldest type of money. Its value is basically based on the material it was manufactured with for example gold, silver.

**METALLIC MONEY:** Coinage: gold and silver were utilized as coins, stepped by a capable position. As the time passed the transportation and keeping of coins etc became dangerous.

**PAPER CURRENCY:** this paper cash which is viewed as lawful delicate on the grounds that the administration says it is cash. It has no support of gold, silver or government protections

**BANK MONEY:** Bank cash is the utilization of checks as the vehicle of trade. Checks have made it conceivable simpler to make exchanges for enormous sums. They are simpler to move. They are protected and give receipts

**ELECTRONIC MONEY:** it is known as the form of currency that is electronically stored in devices such as the online banking system.

## **PRIMARY FUNCTIONS OF MONEY:**

### **Money as medium of exchange:**

- \* is used to pay for services and goods etc
- \* Utilization of cash permits buy and deal to be directed freely of each other.
- \* A buyer can easily buy goods through money and a seller can easily sell the goods for money.

### **Money as a unit of account:**

- \* Common proportion of cash.
- \* Used to look at products in wording cash

Money as a standard of deferred payments

- \* Money is valuable in the buying merchandise using a credit card as it is anything but difficult to get and loan

### **4. Money as a store of value:**

- \* Does not weaken and stores esteem
- \* In this values of all the services and goods are expressed

## **Q3(a):What is the Consumer Price index and how it is controlled?**

### **Ans: CONSUMER PRICE INDEX:**

Consumer Price Index:A Consumer Price Index estimates changes in the price level of a weighted normal market crate of consumer merchandise and enterprises bought by family units. The CPI is a factual gauge developed utilizing the prices of an example of agent things whose prices are gathered occasionally. It clearly gives an idea of cost of the living.. It is calculated using the price and the content of the baskets.

### **HOW IS IT CONTROLLED:**

In terms of bringing inflation and deflation in the countries. The authorities release the CPI every month usually. If there's inflation going on in the country's market, the CPI will rise over the short period of time and if the CPI is released and it's declining, that means there is deflation in the market and prices of goods and services are decreasing thoroughly. The CPI comes to work for bringing prices up and down in the country. And how an average worker will get used to it within their average income.

CPI is controlled by various ways depending on what you want to do with it whether you want a product to lose its worth or get higher?

If you want a product to lose its place or to get cheaper in the market or take its place you have to launch one of your own which should be better in quality or has some more features than the product available in the market for instance back in the days when Nokia was the leading brand of mobile phones and people would buy it no matter what and their phones were starting to get a bit un innovative with the time passing by then some other brands came into the market such as Apple iPhone and introduced the first-ever touch screen mobile phone which made everyone crazy and every single person I know wanted

to get their hands on it no matter how expensive it was with such a user friendly interface and literally made the Nokia phones vanish from the market. If you paid attention to the story there were three factors that made Nokia lose the game and iPhone to gain its name that was Innovation, Quality, and consistency.

### **Q3(b): Is Inflation good or bad? What are the causes of inflation in Pakistan?**

**Ans: INFLATION IS GOOD WHEN:** Inflation is great when it is mellow. There are two circumstances where this happens. The first is when inflation causes shoppers to anticipate that costs should keep rising. At the point when costs are going up, individuals will purchase now as opposed to pay all the more later. This expands requests temporarily. Therefore, stores sell more and manufacturing plants produce all the more at this point. They are bound to recruit new laborers to meet demand. It makes an idealistic cycle, boosting monetary development.

The second is the point at which it expels the hazard of deflation. That is when costs fall. At the point when that occurs, individuals stand by to check whether costs will drop more before purchasing. It curtails request, and organizations diminish their stock. Thus, industrial facilities produce less and lay off laborers. Joblessness rises, prompting wage emptying. Laborers have less cash to spend, which decreases requests considerably more. Organizations bring down their costs. That makes flattening worse. For this explanation, collapse is significantly more destructive to monetary development than inflation. Prices fell 10% during the worldwide Great Depression.

**INFLATION IS BAD WHEN:** At the point when Inflation Is Bad on the off chance that inflation is more prominent than 2%, it becomes dangerous. Strolling inflation is when costs rise 3% to 10% in a year. It can drive an excessive amount of monetary growth. At that level, inflation denies you of your well deserved dollars. The costs of things you purchase each day rise quicker than compensation. On account of strolling inflation, it takes \$24 today to purchase what \$1 did in 1913.

The worst types of inflation are hyperinflation and stagflation.

One explanation inflation hasn't returned is that the Fed comprehends the four reasons for inflation much better than it did during the 1980s. It can all the more immediately put the brakes on increasing costs by raising loan fees so inflation is good and bad both.

#### **CAUSES OF INFLATION**

- \* Increase in Public Spending
- \* Deficit Financing of Government Spending
- \* Increased Velocity of Circulation
- \* Population Growth
- \* Hoarding
- \* Genuine Shortage
- \* Exports
- \* Trade Unions
- \* Tax Reduction

- \* The imposition of Indirect Taxes
- \* Price-rise in the International Markets

**\*\*\*THANK YOU\*\*\***