***Name :- Ayaz ali Shah***

***ID:- 15756***

***Paper :-Principles of macroeconomics***

***Qno 1:-***

***MCOS:-***

1. (a)
2. (c)
3. (d)
4. (b)
5. (b)
6. (a)
7. (d)
8. (b)
9. (a)
10. (D)

**Q NO 2:-**

**1)**

Thinking about the definition of GDP, transfer payment, zakat, pension etc. are excluded from the GDP because calculating GDP, market value of goods is either taken for the final product or value added at each stage of production in order to avoid ‘’double counting”. These all payments are once counted in the income of people so therefore they are excluded from the GDP.

2)

**Net national income**

**Definition:**

“It is the calculation of national income by considering the aspects of depreciation of goods and services”

Net national income is an accurate measure but it is not commonly used for the calculation of national income because the calculation and estimation are not an easy task and different businesses used different depreciation methods which may over or under estimate their incomes.

3)

**Total Labor force = number of employed + number of unemployed**

**Total Labor force = 138,547,000 + 6,021,000**

**Total Labor force = 144,568,000**

**Now**

**Unemployment rate = number of unemployed / total labor force**

**Unemployment rate = 6,021,000/144,568,000**

**Unemployment rate = 0.0416482209**

4)

***Natural rate of unemployment***

It is the rate which always exist in the economy and is the combination of frictional and structural unemployment. At this rate labor market and product market are in equilibrium. Here inflation is stable. In countries which are concerned with the prevention of high inflation, this rate is the lowest level that can be sustain. It therefore shows the highest sustainable level of employment and correspond with the nation’s potential output.

3.5% -----> 4.5% -----> GDP max level.

5)

***Okun’s Law:-***

“The law states that ‘’ for every one percent increase in unemployment will results in two percent loss in GDP relative to the potential GDP”

There are several reasons why GDP increase or decrease at a faster pace than the unemployment rates.

* As unemployment increases Unemployed people are dropout of the labor force which is not looking for work after which they are no longer counted in unemployment statistics.
* Employed worker may reduce their working hours.
* Labor productivity may decrease perhaps because employer retains more worker than required.

**There is inverse relation between GDP and unemployement.**

**6)**

* **Money as just the medium of exchange and Automatic adjustment mechanism.**

***Money is just the medium of exchange*:-**

Money is a medium exchange because buyers and sellers agree to its common value. Money can lose its value during periods of hyperinflation, when too much money is dumped into an economy.

***Automatic adjustment mechanism:-***

A mechanism that prevented any country from running large and persistent deficits or surpluses. It worked in the following manner. A country running a deficit would see its currency depreciate to the gold-export point.

**QNO 3:-**

**(a) *Consumption equation:***

**Explanation.**

**C = Ca + cY**

**Ca is the autonomous consumption (that level of consumption which doesn’t depends upon consumer income).**

**C is MPC i.e marginal propensity to consume C = dC/dY (how consumption changes when income changes)**

**Value of c ranges from 0 to 1**

**So total consumption C is the sum of autonomous Ca and cY.**

**(b)**

***Uses of national income figures:-***

* Preparation of national budget and other national plans.
* Guidance in the development of economic policy
* Help in getting the foreign loan.
* Production performance of an economy.
* Per capita income.
* Rate of economic growth and development.
* Relative importance of each economic sector.
* Economic comparison of different countries.

***THE END***