Name: Adeel Shehzad
ID: 16671
Department: (MSMC)
Semester: 2nd
Paper: Economics

Scanned with CamScanner

Q.No:1:- Discuss the following concepts?

(i) Gross Domestic product:

Gross domestic product is the total monetary or market value of all the finished good and service produced within a country's boarders in a specific time period. As a bord measure of over all domestic production, it functions as a comprehensive scorecard of a given country economics health.

(ii) Gross National products

Gross national products is the value of all goods and services made by a country's residents and business, regardless of production location. GNP counts the investment made by U.S. residents and business - both inside and outside the country and computer the value of all products manufactured by domestic.

Scanned with CamScanner

(iii) Inflation rate and exchange rate:

★. Inflation

Inflation is a quantities measure of the rate at which the average price level of a basket of selected good and services in an economy increase over some period of time. It is the rise the general level of prices where a unit of currency effectively buys less than it did in prior. often expressed as a percentage, inflation thus indicates a decrease in the purchasing-power of a nation currency.

★ Exchange rate

An exchange rate is the value of nation's currency in term of the currency of another nation or economic zone.

Scanned with CamScanner

(iv) Government Expenditure

Government Expenditure or Spreading include all government consumption, investment, and transfer payment. In National income accounting, the acquisition by govt of good and services for current use, to directly stasfy the individual or collective need for the cummunity, is classed as govt final consumption expenditure.

Government acquisition of good and services intended to create future benefits, such as infrastucture investment. They two type of govt spending, on final consumption and on grass capital formation, together contitute one of the major component of grass domestic product.

Change in govt spending is a major component of fiscal policy used to stabilize the macroeconomics business cycle.

Scanned with CamScanner

(v) Aggregate Supply and Agregate demand

Agregate Supply is the total amount of good and services that firms are willing to sell at a given price in an economy. The aggregate demand is the total amounts of good and services that will be purchased at all possible price level.

In a standard AS-AD model, the out put (Y) is the x-axis and price (P) is the y-axis. Aggregate Supply and aggregate demand are graphed togathered to determine equilibrium. The equilibrium is the point where supply and demand meet to determine the output of a good or services.

Scanned with CamScanner

6- Consumption expenditure

Consumer Spending, consumption, or consumption expenditure is the acquisition of good and Services by individuals or families. It is the largest part of aggregate demand at the macroeconomics level. There are two component of consumer spending: Induced Consumption (which is affacted by the level of income) and autonomous Consumption (which is not).

Scanned with CamScanner

Q.No 2: Explain the following Concept in details?

(i) Natural rate of unemployment:

The natural rate of unemployment is a combination of frictional, structural, and surplus unemployment. Even a healthy economy will have this level of unemployment because worker are always coming and going, and looking for better jobs. This jobless status, until they find that new job, is the natural rate of unemployment.

⇒ Natural rate of unemployment:

- The average rate of unemployment around which the economy fluctuates.
- In a recession, the actual unemployment rate rises above the natural rate.
- In a boom, the actual unemployment rate falls below the natural rate.

Scanned with CamScanner

(ii) Frictional unemployment

Frictional unemployment caused by the time it takes woker to search for a job occurs even when wages are flexible and there are enough jobs to go around occurs because

worker have different abilities, Preferences job have different skill requirement geographic, mobility of worker not instantaneous flow of information about vacancies and job candidates is imperfect.

Scanned with CamScanner

(iii) Structural unemployment

Structural unemployment is a form of involuntary unemployment caused by a mismatch between the skill that worker in the economy can offer, and the skill demanded of worker by employers. Structural unemployment is often brought about by technological changes that makes the job skill of many workers obsolete.

Structural unemployment is one of three categories of unemployment distinguished by economists, the other being frictional unemployment and cyclical unemployment.

Scanned with CamScanner

(iv) Cyclical unemployment

Cyclical unemployment is a type of unemployment which is related to the cyclical trend in the industry or the business cycle. If an economy is doing good, cyclical unemployment will be at it lowest, and will be the highest if the economy growth starts to falter.

Description:

Cyclical unemployment relates to the business cycle in an industry. It is a direct result of fall in demand from Consumers leading at a slump in demand for labour.

Scanned with CamScanner

(V) Minimum wage law

~~Ma~~ Minimum wage Law is the body of law which prohibits employers from hiring employees or worker for less than a given hourly, daily or monthly minimum wage. More than 90% of all countries have some kind of manimum wage legislation. A minimum wage is the Lowest wage per hour that a worker may be paid, as mandated by federal law. It is a legally mandated price floor on hourly wages, below which non-exempt worker may not be offered or accept a job.

Scanned with CamScanner

(vi) Efficiency wage theory

The Idea of the efficiency wage theory is that increasing wage can lead to increased labour productivity because workers feel more motivated to work with higher pay.

Therefore, if firm increase wage. Some or all of the higher wages cost will be recouped through increased staff retention and higher labour productivity.

In theory, higher wage could caused increased labour productivity. In this case, the wage increase can pay for themselves.

Scanned with CamScanner

Q.No.3

Ans:

Matrix diagram for this question is this:

Table Adverstising Game

Firm A		Firm B
	Nither Swidth	Nither Swith
Nither Swicth	(10,10)	(5, 15)
Nither Switch	(15, 5)	(10, 10)

What is the Nash equilibrium of this game? Applying its definition, You can deduce easily that is the Nash equilibrium. Notice that this game is analogous to the prisoner's dillema. Compared to the Nash equilibrium both players can be better off - and the Society will benefit - if they choose NietherSwitth, Niether Swicth instead. yet, they can'nt do it because they are be having in a non-cooperative manner.

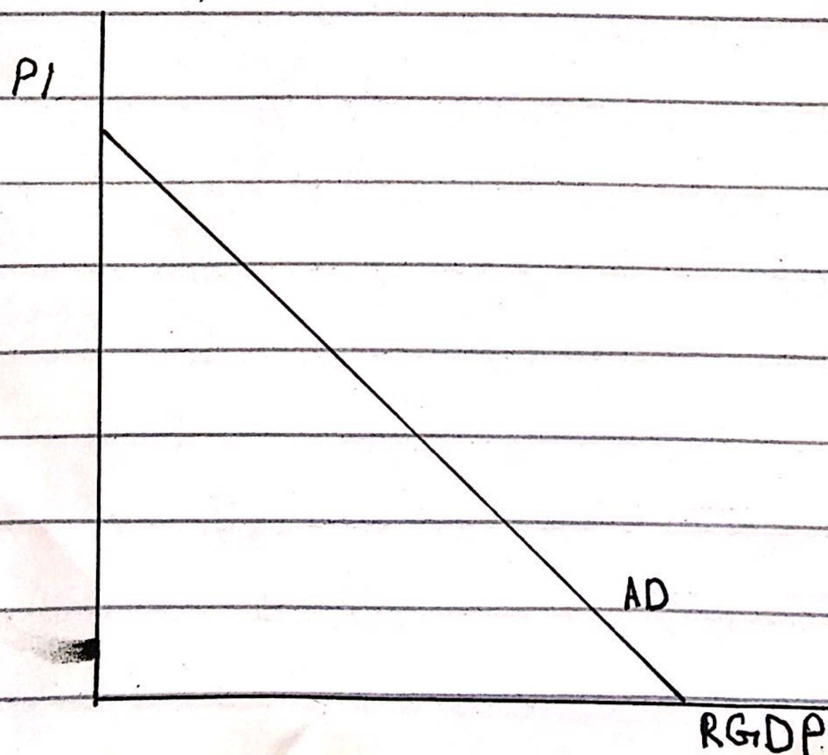
Scanned with CamScanner

Q.No:4: Explain All the factor which can shift aggregate demand and aggregate Supply?

Aggregate Demand

The real mounts of domestic, output which domestic consumer, business, government, and foreign buyers collectively will desire to purchase at each possible price level.

Figure 1 Aggregate Demand



Scanned with CamScanner

Why Aggregate Demand is Downward Sloping

- Real Balance Effect

Because higher prices reduce real Spending power, prices and output are nagatively related.

- Foreign purchases Effect

When domestic prices are high, we will export less to foreign buyers and we will import more from foreign producers. Therefore higher prices lead to less domestic output.

- Interest rate Effect

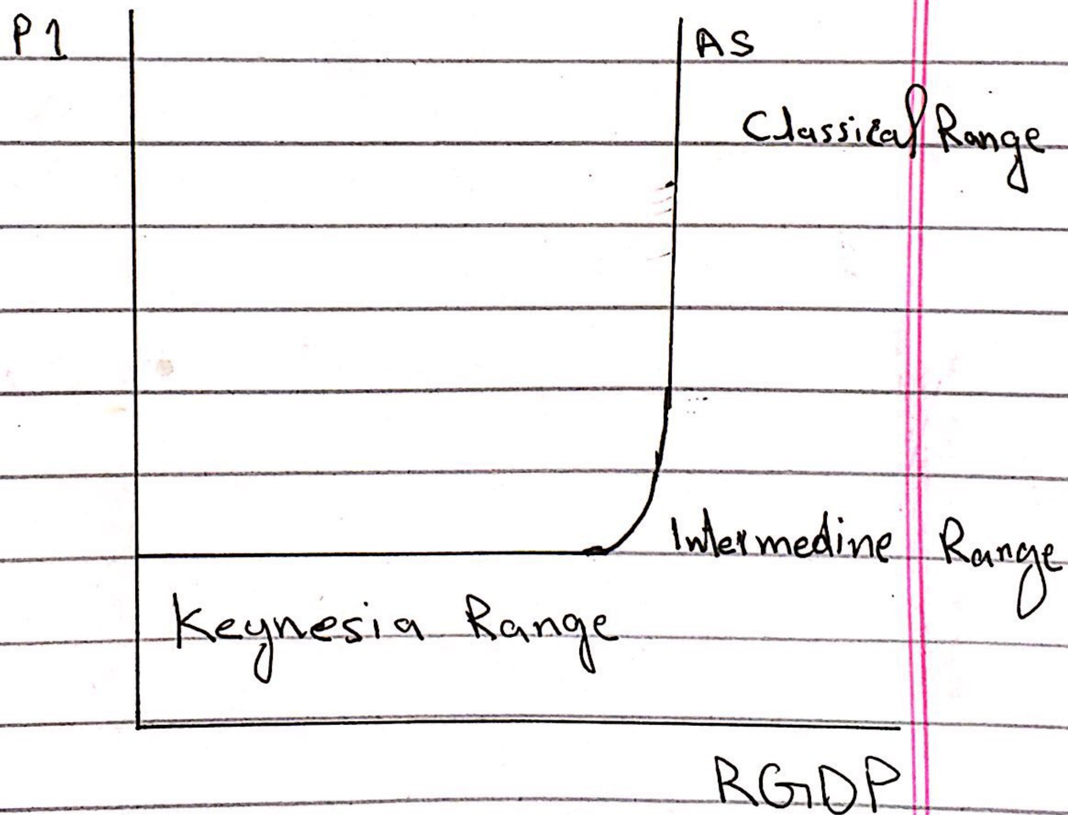
Higher prices lead to inflation which leads to less borrowing and a lowering of RGDP.

Scanned with CamScanner

Aggregate Supply

The level of the Real domestic output available to each possible price level.

Figure 2 The Aggregate Supply curve



Scanned with CamScanner

Variable that Shift AS

- Input Prices
- Productivity
- Government Regulation

Determination of AS

Variable	Effect of an Increase on AS	Effect of an Decrease on AS
Input prices	Decrease os AS	increase So AS
productivity	Increase So AS	Decrease So AS
Government Regulation	Decrease So AS	Increase So AS

Scanned with CamScanner

Variable that Shift AD

- Tax
- Interest Rates
- Confidence
- Strength of the Dollar
- Government Spending

Determine of AD

Variable	GDP Component C, I, G, X	Effect of Increase on AD	Effect of decrease on AD
Taxes	C, I	Decrease So AD<=	Increase So AD=>
Confidence	C, I	Increase So AD=>	Decrease So AD<=
Intrest rate	C, I	Decrease So AD<=	Increase So AD=>
Strength of doller	X	Decrease So AD<=	Increase So AD=>
Govrnment Spending	G	Increase AD=>	Decrease So AD<=