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| program | B.B.A | **Section** | B |

**Question # 1 Answer.**

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| --- | --- |
| **MCQ’s** | |
| 1 | a |
| 2. | c |
| 3. | d |
| 4. | c |
| 5. | b |
| 6. | a |
| 7. | d |
| 8. | b |
| 9. | a |
| 10. | d |

**Question # 2 Answer.**

1. Transfer payments (Zakat, Donations etc.) are excluded from the calculation of GDP because we only consider the payment for goods and services in GDP, we do not consider GDP for the cases of zakat and donation.
2. Because the calculation and estimation of depreciation not an easy task and even different business are suing different depreciation methods which may over or under estimate their income.
3. Total labor force = Total employed + Unemployed

So total labor force is 138,547,000 + 6,021,000 = 144,568,000

6.021,000 / 1400,568,000 = 0.0416482209 x 100 = 4.1 %

1. It is the rate which always exist in the economy and is the combination of a fractional and structural unemployment.

It shows the highest level of employment and corresponds with the nation potential output.

1. **Okun’s Law:**

It tells how much the country’s GDP will be lost when unemployment rate is above its natural rate.

The law states that;

“For every 1% increase in unemployment will result in 2% loss in GDP relative to the potential GDP.”

There are several Reasons why GDP increases or decreases at a faster pace than an unemployment rate.

* 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 workers may reduce their working hours.
* Labor productivity my decrease perhaps because employers retains more workers than required.

1. **Money is only a medium of exchange:**

Classical theory consider only a signal function of money that is the medium of exchange and ignores the other functions.

According to them money can be only used to exchange for goods and there is no alternative use of it.

**Automatic Adjustment Mechanism:**

Classical economist were of the opinion that wages and prices are flexible and the market will automatically adjust them according to the forces of demand and supply so any change or problem will itself be sort out due to flexible nature of prices.

**Question # 3 Answer.**

1. Some uses of National income:
2. **Helps in getting the foreign loan:**

As national income represents the economic strength of a country so those countries whose national income is high are more preferable to get the foreign loan as compare to those countries whose national income is low.

1. **Per Capita income:**

As Per capita income represents the average income of a person in a country and is related to national income which shows the more the national income the more will be the per capita income which also shows high standard of living of life.

1. **Economy comparison of different countries:**

As national income shows the economic strength of a country we can compare different countries economy on the basis of national income.

The more the national the higher will be its economic strength and vice versa.

1. **Production performance of an economy:** National income also shows the production performance of an economy as production is the major part of national income the more the production the more will be GDP and national income as well.
2. **Rate of economic growth and development:** National income represents the economy growth and development of a country the more the national income the more will be the economic strength of a country which we lead to the development and prosperity of a country.