**Name:** Arbaz khan

**ID:** 14176

**Teacher:** sir zafar ul haq

**Subject:** Monetary economics

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**1.**

 A.What is money and why it is important for any economy?

***Money.***

 Anything which is generally acceptable as medium of exchange and that is act as a measure and store value, and used in economic transactions and services.

Money plays a significant role in modern economy. It has an active role in economic activities.

Government should keep money supply stable not the more not less if money supply is more then it may lead to inflation or if money supply lesser then it will lead to shortage of liquidity which will lead to lesser investment and less employes.

**Importance**

* Removal of defects of barter system
* Helpful in transfer of wealth
* Basis of investment system
* Motivation to economic activities
* Social importance of money
* Political importance
* Financing trade
* Sufficiency of banks
* Development of capital markets.

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1. What is barter system and why it vanished?

**Barter system.**

Direct exchange of goods for some good without any medium of exchange.

It exists in early stage as life was simple but with time human needs increased and barter system vanished.

There is some failure in barter system and later people didn’t agree on these situations so barter system was vanished due to these failures concepts

* Double coincidence of wants
* Lack of common measure
* Lack of sub-division
* Lack of store value
* Payment in the future and
* Difficulties in transfer of wealth.

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**2.**

A. Explain in detail the primary and secondary functions of money.

**Primary functions**

* *Money as medium of exchange*
* *Money as a unit of account*
* *Money as standard of differ payment*
* *Money as a store of value*

**Secondary functions**

* **Production and trade**
* **Influence on income and consumption**
* **Money as a instrument of making loans**
* **Money as a tool of monetary management**
* **Instrument of economic policy**

1. Primary Functions:

Primary Functions include the most important functions of money, which it must perform in every country,

1. Medium of exchange

 Money as a medium of exchange, means that it can be used to make payments for all transactions of goods and services. It is the most essential function of money. Money has the quality of general acceptability So, all exchanges take place in terms of money.

1. Measure of value

 It means that money works as a common denomination, in which values of all goods and services are expressed.

2. Secondary Functions:

These refer to those functions of money which are supplementary to the primary functions

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(i) Standard of Deferred Payments:

Money as a standard of deferred payments means that money acts as a ‘standard’ for payments, which are to be made in future.

(ii) Store of Value (Asset Function of Money):

Money as a store of value means that money can be used to transfer purchasing power from present to future. Money is a way to store wealth. Although wealth can be stored in other forms also, but money is the most economical and convenient way.

**3.**

A.what are financial markets and what are their role in economy development?

***Financial markets.***

 A financial market is a market that brings buyers and sellers together to trade in financial assets such as stocks, bonds, commercial papers, T-bills and currencies.

A financial market is a market in which people trade financial securities and derivatives at low transaction costs. Some of the securities include stocks and bonds, and precious metals.

***Role in Economic development.***

It play important role in the accumulation of capital and the production of goods and services

***Financing industry***

 Helps the industries to secure short term loans

***Financing trade***

Help in domestic and foreign trade

***Monetary policy***

Central bank can control the flow of money

***Economic growth***

Increase the economic stability of country functioning in growth and savings and investment

***Helps to Government***

It helps in government sectors They stable their dependability and lead to inflation

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b. Inflation is one of the most major economic problem in pakistan.what are the causes of inflation and what are its remedies with reference to pakistan.

***Causes***

* *Increase in money supply*
* *Increase in velocity of circulation*
* *Exports*
* *Trade unions*
* *Tax reduction*
* *Imposition if indirect taxes*
* *Agriculture price policy*
* *Inadequate industrial growth*

 **Remedies**

* *Increase in growth rate of production*
* *Proper taxation check*
* *Control on corruption*
* *Increase industrial sectors*
* *Increase employment*
* *Improvement in balance of payment*
* *Develop Agricultural sectors*