Subject: Monetary Economics

Course code: ECO-434

Roll No: 14005

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Program: BBA (HONS)

Semester: 6th

**Question 1. (a)**

What is Money and why it is important for any economy?

***Answer:***

**MONEY**

Money has following three different types of definitions which are as under:

1. Descriptive definition
2. Legal definitions
3. General acceptability definitions
4. **Descriptive definition**

* Focus on functions of money
* ***Crowther*** defined as
  + “Anything that is generally acceptable as a medium of exchange and that at the same time acts as a measure and store of value”
* ***Coulborn*** definition
  + “Means of valuation and of payment”
* ***Cole*** definition
  + “Money is anything that is widely used as a mean of payment and is generally acceptable in settlement of debts”
* These are all narrow definitions as they all just focusing on functions of money.

1. **Legal definitions**
   * + - These definitions are based on state theory of money.
       - There should be a state force for things to be declared and accepted as money.
       - Medium should be legal
       - ***Professor Knap*** definition

“Anything which is declared by the state as money is money”

1. **General acceptability definitions**
   * According to ***Seligman***
     + “Money is one thing that possesses general acceptability”
   * ***Kent’s*** definition
     + “Money is anything that is commonly used and generally accepted as a medium of exchange or as a standard of value”
   * Mishkin definition
     + “Money is anything that is generally accepted in payment for goods and services or in the repayment of debts”

**Why is it important for any economy?**

* Money determines wealth and economics is the field that studies wealth. Money is a unit of account, a store of value, and medium of exchange. It has no intrinsic value and it is reliable. Money is accepted worldwide in trade of goods and services, it is used to measure wealth, and it is regulated by governments. Without money we cannot make rational decisions because money measures welfare.

**Question 1. (b)**

What is Barter system and why it vanished?

***Answer:***

1. **Barter System**

* Direct exchange of goods for some good without any medium of exchange.
* Exist in early stage as life was simple
* With passage of time, human needs increased.
* Some produced certain goods in greater quantity and vice versa
* The direct exchange of surplus commodity for commodity with another person without the use of money is termed as Barter system in Economics
* Later on, time mostly found in economically backward and less developed countries.
* Modern times, goods are exchanged with money not goods.

1. **Why Barter system vanished?**

***Inconveniences of Barter system***

* Before introduction of Money, following were the inconveniences faced in Barter system.
* Double coincidence of Wants
* Lack of common measure
* Lack of sub-division.
* Lack of store of value
* Specialization not possible
* Payment in the Future.
* Difficulties in transfer of wealth

**Question 2. (a)**

Explain in detail the Primary and secondary functions of Money.

***Answer:***

**FUNCTIONS OF MONEY**

***PRIMARY FUNCTIONS OF MONEY***

* + ***Money*** as a medium of Exchange
    - Used to pay for goods and services
    - Overcame double coincidence of barter system
    - Introduced time efficiency of exchanging goods and services
    - Encouraged division of labor. People are now specializing due to easier payment of
    - services rendered.
  + ***Money*** as a unit of account
    - Common measure of money.
    - Used to compare goods in terms money
  + ***Money*** as a standard of deferred payments
    - Money is useful in the purchasing goods on credit as it is easy to borrow-and lend
  + ***Money*** as a store of value
    - Does not deteriorate and stores value

***SECONDARY FUNCTIONS OF MONEY***

* ***Money*** has the potential to influence an economy, by influencing interest rates, price levels, resources, etc.
  + - * Aid to specialization, production and trade
      * Influence on income & consumption
* Money is an instrument of making loans
  + - * Money as tool of monetary management
* Instrument of economic policy

**Question 3. (a)**

What are Financial Markets and what are their roles in economic development?

***Answer:***

1. **FINANCIAL MARKETS:**

* Financial Market refers to a marketplace, where creation and trading of financial assets, such as shares, debentures, bonds, derivatives, currencies, etc. take place. It plays a crucial role in allocating limited resources, in the country’s economy. It acts as an intermediary between the savers and investors by mobilizing funds between them.
* The financial market provides a platform to the buyers and sellers, to meet, for trading assets at a price determined by the demand and supply forces.

1. **ROLE IN ECONOMIC DEVELOPMENT**

It plays 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

**Question 3. (b)**

Inflation is one of the major economic problems in Pakistan. What are the causes of inflation and what are its remedies with reference to Pakistan?

***Answer:***

**INFLATION IN PAKISTAN:**

According to research One of the most important factors contributing to poverty in Pakistan is inflation. One of the main causes of inflation has been the excess printing of banknotes, high prices of raw materials and finished products, high taxes, as well as corrupt practices. Some of the causes and remedies are mentioned below

* ***Causes* of inflation In Pakistan:**
  + 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* of Inflation in Pakistan:**
  + 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