Name:	Mohammad Safiullah	**Roll:**	16437
Course:	Macroeconomics	**Section:**	B
Program:	B.B.A	**Teacher:**	Miss. Wajeeha Amin

A PART.

MCQ's:

MCQ's	
1.	**a**
2.	**b**
3.	**b**
4.	**c**
5.	**c**
6.	**b**
7.	**c**
8.	**a**
9.	**b**
10.	**c**

PART B.

Question # 1:

1. Hyperinflation:

Hyperinflation is an extreme case of inflation where the inflation rate increases above 100%. During hyperinflationary periods, the price level increase by about 500% to 1000% per year. Here, prices cannot be controlled, Hyperinflation happens when there exists a significant rise in money supply not supported by economic growth. As a result, the supply and demand for money are at a disequilibrium.

Disinflation:

Whereas deflation is negative economic growth, such a -5%, disinflation is simply a reduction in the rate of inflation, such as the inflation rate going from 9% one year to 7% the next year. It occurs when the rate at which the prices are raising is diminishing, It is important to note that it does not signal the slowing down of the growth of the economy; it signals a slow in the growth rate of inflation.

2. Cost-Push Inflation:

Cost-push inflation is when prices rise as a result of rising costs of production and raw materials. Cost-push inflation is usually more temporary than other sorts of inflation and therefore central banks are more likely to leave interest rates alone if the cause of a high inflation rate is deemed to be cost-push. Some economists argue that short-term cost-push inflation often leads to long-term high inflation down the line, triggered by wage increases that come in response to the initial bout of cost-push inflation.

Demand-Pull Inflation:

Demand-pull inflation is a type of inflation that occurs when aggregate demand grows rapidly, outpacing aggregate supply. When demand soars above supply, this leads to prices rising to increase profits. Demand-pull inflation usually occurs when the economy is at almost full employment levels. Keynesian economics holds that when the economy reaches full employment during a period of economic growth, general price levels will skyrocket to maximize profits, which in turn will cause inflation.

3. Expansionary Policy:

Expansionary, or loose policy is a form of macroeconomic policy that seeks to encourage economic growth. Expansionary policy can consist of either monetary policy or fiscal policy (or a combination of the two). It is part of the general policy prescription of Keynesian economics, to be used during economic slowdowns and recessions in order to moderate the downside of economic cycles.

Contractionary Policy:

A contractionary policy is a kind of policy which lays emphasis on reduction in the level of money supply for a lesser spending and investment thereafter so as to slow down an economy.

4. Open-market operations:

Central banks conduct *open-market operations* when they buy or sell the government securities like bonds, T-bills etc. in the market.

The parties to which the central bank sell or from which they purchase are general public, govt., businesses etc.

When they buy government bonds, the money supply increases but when they sell government bonds, the money supply decreases and foreign exchange market intervention also affects the money supply.

Discount rate:

The discount rate is the interest rate the Central Bank (State bank) charges commercial banks and the government for loans, increasing the discount rate decreases the money supply while decreasing the discount rate increases the money supply.

5. Central bank:

Central bank is an institution which is charged with the responsibility of managing the expansion and contraction of currency and credit for the maximum welfare of the country. Central bank basically works for the fulfilment of financial needs, economic stability and for the growth of banking system. The objective of central bank is not to earn the profit rather to work in the best interest of the nation or public. Central bank does not accept any kind of pressure of any political party or group while rendering its duties for the better interest of the country.

Commercial bank:

Commercial bank is an institution which accepts deposits, lends money and transfer money from one place to another. Commercial banking involves in making profit by investing other’s money and not by investing commercial banks owns money. Modern commercial banks play a vital role in shaping the economic destiny of a country. They collect the scattered savings of people and make the available for society desirable and economically beneficial purpose. They are an intermediate party between those people who have surplus cash and those who are in need of cash.

Comparison Chart of Central bank VS Commercial bank

Comparison	Central Bank	Commercial Bank
1. Formation	Central bank is formed under an act or ordinance of the government.	Commercial banks are formed under the companies ordinance.
2. Foreign Exchange	Central bank controls the amount of foreign exchange in the country.	Commercial bank has nothing to do with it.
3. Growth of Banking	It is the duty of central bank to safeguard and promote the banking sector.	Commercial bank is not responsible for the growth of banking sector.
4. Note Issue	It has the sole authority of issuing currency note.	Commercial bank cannot issue currency note.
5. Lender	Central bank is the lender of money market	Commercial banks are the member of money market.
6. objective	The main objective of a central bank is to promote the welfare of country.	Their main aim is to earn maximum profit.
7. Public Bank	Central bank is not a public bank and does not accept the deposit of public.	Commercial bank provides banking facilities to the general public.
8. Economic Policies	Central bank plays vital role in preparation of government’s trade, monetary & fiscal policies.	Commercial banks help the government for the implementation of trade, monetary & fiscal policies.
9. Transfer of Money	It helps the government for transferring money from one place to another.	It helps the public and government for transferring money from one place to another.
10. Clearing House	It provides clearing house facilities to commercial banks.	Commercial banks are the members of clearing house and cannot provide such facilities.

Question # 2:

A.

Money: Money is any object that is generally accepted as payment for goods and services and repayment of debts in a given socioeconomic context or country. Money comes in three forms: commodity money, fiat money, and fiduciary money. Many items have been historically used as commodity money, including naturally scarce precious metals, conch shells, barley beads, and other things that were considered to have value. The value of commodity money comes from the commodity out of which it is made. The commodity itself constitutes the money, and the money is the commodity.

Some Functions of money:

1. **Medium of exchange:**
   Money allows goods and services to be traded without the need for a barter system. Barter systems rely on there being a double coincidence of wants between the two people involved in an exchange.

2. **Store of value**:
   This can refer to any asset whose "value" can be used now or used in the future i.e. its value can be retrieved at a later date. This means that people can save now to fund spending at a later date.

3. **Unit of account:**
   This refers to anything that allows the value of something to be expressed in an understandable way, and in a way that allows the value of items to be compared.

4. **Standard of deferred payment:**
   This refers to the expressing of the value of a debt i.e. if people borrow today, then they can pay back their loan in the future in a way that is acceptable to the person who made the loan.

B.

Some direct instruments work as a tool of monetary policy is as follows:

1. Ceilings on interest rates:

A level or restriction imposed by the central bank above which rate can't be increased.

- Create excess demand for credit.
- Prone to abuse.
- Inefficient and unfair.

2. Quotas on credit:

- A maximum or minimum limit on quantity. Applied to imports, a quota designates the maximum quantity of a product that may be brought into a country during a specified period of time. Quotas can have significant impact on certain industries and companies. The establishment of a quota or a change in an existing quota can influence the price of the affected firm's securities

Question # 3:

A.

Automatic stabilizers:

Automatic stabilizers are mechanisms built into government budgets, without any vote from legislators that increase spending or decrease taxes when the economy slows. During a recession, automatic stabilizers can ease households' financial stress by decreasing their tax bills or by boosting cash and in-kind benefits, all without changes in the tax code or any other new legislation.

For example, when a household's income declines, it generally owes less in taxes, which helps cushion the blow?

Additionally, with a decline in income, a household may become eligible for unemployment insurance (UI), food stamps (Supplemental Nutrition Assistance Program, or SNAP), or Medicaid.

Example of automatic stabilizers:

High Growth: In a period of high economic growth, automatic stabilizers will help to reduce the growth rate. With higher growth, the government will receive more tax revenues – people earn more and so pay more income tax (note the tax rate doesn't change, the amount received just becomes higher). With higher growth, there will also be a fall in unemployment so the government will spend less on unemployment benefits. In a period of high growth ceteris paribus government borrowing will fall.

Recession: In a recession, economic growth becomes negative. However, automatic stabilizers will help to limit the fall in growth. With lower incomes, people pay less tax, and government spending on unemployment benefits will increase. This increase in benefit spending and lower tax collection helps to limit the fall in aggregate demand. In a recession ceteris paribus government borrowing will increase.

B.

Measuring of inflation:

Measuring inflation is a difficult problem for government statisticians. To do this, a number of goods that are representative of the economy are put together into what is referred to as a "market basket." The cost of this basket is then compared over time. This results in a price index, which is the cost of the market basket today as a percentage of the cost of that identical basket in the starting year.

- One of the most commonly used measure for inflation
- A measure of price changes in consumer goods and services such as gasoline, food, clothing and automobiles. The CPI measures price change from the perspective of the purchaser.
- The Consumer Price Index (CPI) uses a "basket of goods" approach that aims to compare a consistent base of products from year to year, focusing on products that are bought and used by consumers on a daily basis. The price of your milk, eggs, toothpaste and a haircut are all captured in the CPI.
- The market basket is updated every few years to remove goods and services that might have become obsolete or irrelevant.
- Percentage changes in CPI measures inflation.

Question # 4:

A.

Causes of Push inflation:

- ### Increase in Cost of Raw Materials:

When the prices of raw materials increases this increase the cost of production of the producer and the producer increases the price of the product.

- ### Increase in wages:

The rise in wages increases the cost of production which increases the price of the product.

- **Decrease In production:** Changes in the volume of production, has inverse effect on price level. If in some situation such as floods, war or political disturbances, production of goods falls, prices tend to rise.

- **Imported inflation:** Sometimes a country has to face inflation because it imports goods from other countries at continuously rising prices.

- ### Indirect taxes:

Indirect taxes also push up prices of goods. When the government imposed the sales tax on the commodities like oil, gas, electricity, telephone, food products etc. the prices goes up in the market.

B.

Why inflation is good?

Inflation is good when it is mild. There are two situations where this occurs.

1. When inflation makes consumers expect prices to continue rising. When prices are going up, people will buy now rather than pay more later. This increases demand in the short term. As a result, stores sell more and factories produce more now. They are more likely to hire new workers to meet demand. It creates a virtuous cycle, boosting economic growth.

2. When it removes the risk of deflation, that's when prices fall when that happens, people wait to see if prices will drop more before buying. It cuts back demand, and businesses reduce their inventory. As a result, factories produce less and lay off workers. Unemployment rises, leading to wage deflation. Workers have less money to spend, which reduces demand even more. Businesses lower their prices. That makes deflation worse. For this reason, deflation is even more corrosive to economic growth than inflation.
Prices fell 10% during the worldwide Great Depression.

OR

- Small amounts of inflation encourages consumption. For example, if you wanted to buy a specific item, and knew that the price of it would rise by 2-3% in a year, you would be encouraged to buy it now. Thus, inflation can encourage consumption which can in turn further stimulate the economy and create more jobs.

- However, as some inflation may be good on macroeconomic level, on microeconomic level it might be quite bad for someone (individuals my not like higher prices)

- Economists generally argue that some inflation is a good thing. A healthy rate of inflation is considered to be approximately 2-3% per year. The goal is for inflation (which is measured by the Consumer Price Index, or CPI) to outpace the growth of the underlying economy (measured by Gross Domestic Product, or GDP) by a small amount per year.

- A healthy rate of inflation is considered a positive because it results in increasing wages and corporate profitability and keeps capital flowing in a presumably growing economy...