**` ASSIGNMENT**

 **Monetary Policy**

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**Consequences of Monetary Policy on Pakistan’s Economic Condition:**

Central bank of Pakistan has reduced the interest rate by 200 basis point and current interest rate is 9 percent. This means that because of the COVID-19 central bank of Pakistan choose expansionary MP. The reason behind choosing expansionary MP is to minimize the impact of COVID-19 on businesses and people. Through easy MP, people and businesses can take loan on easy conditions from bank. There are several channels through which MP can affect economic conditions of Pakistan. Some of that are;

1. Expansionary MP means lower interest rate, people will not save their money in banks. Instead of saving the account holders will withdraw their money and will invest it, which will create job opportunities and hence one can achieve better standard of living by achieving employment.
2. Secondly, that in easy MP, people can take loan on easy conditions (especially people who are negatively affected from Covid-19 Pandemic) to fulfill their needs.
3. Global pandemic also affect the financial institution. So they can also stabilize their condition by taking loan on lower interest rate.
4. Lower interest rate causes a high purchasing power, so it increases the demand of the customers and it will expand the business sector by increasing their supply to meet the demand of consumers. It also leads to increase in the greater capital investment by businesses.
5. It also increases capital investment, which is one of the ways for creating additional jobs in the market, and hence it will curb unemployment.

With these positive consequences, there are also some negative effects of loose monetary policy. Some of which are;

1. Another side of expansionary MP is, lower interest rate will lead to low saving which in turn leads to lower investment, hence it will cause unemployment and it will reduce the aggregate demand and at the end inflation can be reduced.