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SUBJECT: Introduction to Economic

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FINAL TREM ASSIGNMENT

Q1: Discuss the following concepts?

: Gross Domestic Product

Gross domestic product is a monetary measure of the market value of all the final goods and services produced in a specific time period. GDP nominal per capita does not, however, reflect differences in the cost of living and the inflation rates of the countries therefore using a basis of GDP per capita at purchasing power parity is arguably more useful when comparing living standards between nations, while nominal GDP is more useful comparing national economies on the international market. Though GDP is typically calculated on an annual basis, it is sometimes calculated on a quarterly basis as well. In the U.S for example, the government releases an annualized GDP estimate for each fiscal quarter and also for the calendar year. The individual data sets included in this report are given in real terms so the data is adjusted for price changes and is therefore net of inflation. In the U.S the Bureau of Economic Analysis (BEA) calculates the GDP using data ascertained through surveys of retailers, manufacturers, and builders and by looking at trade flows.

: Gross National Product

Gross national product (GNP) is an estimate of total value of all the final products and services turned out in a given period by the means of production owned by a country's residents. GNP is commonly calculated by taking the sum of personal consumption expenditures, private domestic investment government expenditure net exports and any income earned by residents from overseas investments minus income earned within the domestic economy by foreign residents. Net exports represent the difference between what a country exports minus any imports of goods and services. GNP is related to another important economic measure called gross domestic product (GDP) which takes into account all output produced within a country's borders regardless of who owns the means of production. GNP starts with GDP adds residents' investment income from overseas investments and subtracts foreign residents' investment income earned within a country.

: INFLATION RATE

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over some period of time. It is the rise in the general level of prices where a unit of currency effectively buys less than it did in prior periods. Often expressed as a percentage, inflation thus indicates a decrease in the purchasing power of a nation’s currency.

: EXCHANGE RATE

An exchange rate is the value of one nation's currency versus the currency of another nation or economic zone Most exchange rates are free-floating and will rise or fall based on supply and demand in the market. Some currencies are not free-floating and have restrictions.

: GOVERNMENT EXPENDITURE

A government spends money towards the supply of goods and services that are not provided by the private sector but are important for the nation’s welfare. Government spending goes to the nation’s defense infrastructure health and welfare benefits. Furthermore, governments subsidize startup industries or industries that cannot propel their operations with funding by the private sector, such as transportation or agriculture. The transfer payments for pensions is not a flexible instrument of fiscal policy, while unemployment benefits depend on the cycle of the economy, i.e. recession or expansion. Conversely, income transfers to private firms in the form of financial and fiscal incentives reinforce investment activity and employment. In this sense, government spending enables the redistribution of income.

: AGGREGATE DEMAND

Aggregate demand is an economic measurement of the total amount of demand for all finished goods and services produced in an economy. Aggregate demand is expressed as the total amount of money exchanged for those goods and services at a specific price level and point in time.

: AGGREGATE SUPPLY

Aggregate supply, also known as total output, is the total supply of goods and services produced within an economy at a given overall price in a given period. It is represented by the aggregate supply curve, which describes the relationship between price levels and the quantity of output that firms are willing to provide. Typically, there is a positive relationship between aggregate supply and the price level.

: CONSUMPTION EXPENDITURE

Consumption Expenditure is the spending by households on goods and services excluding new housing. In developed countries it has become the largest component of Gross Domestic Product. consumption is buying and using something or how much of something has been used up.

An example of consumption is when many members of the population go shopping. An example of consumption is when a person consumes 2 bushels vegetables per day.

Q2: Explain the following concepts in detail?

: NATURAL RATE OF UNEMPLOYMENT

The natural rate of unemployment is the name that was given to a key concept in the study of economic activity. Milton Friedman and Edmund Phelps tackling this human problem in the 1960s, both received the Nobel Prize in economics for their work, and the development of the concept is cited as a main motivation behind the prize. A simplistic summary of the concept is the natural rate of unemployment, when an economy is in a steady state of full employment is the proportion of the workforce who are unemployed. Put another way, this concept clarifies that the economic term full employment does not mean zero unemployment. It represents the hypothetical unemployment rate consistent with aggregate production being at the long-run level. This level is consistent with aggregate production in the absence of various temporary frictions such as incomplete price adjustment in labor and goods markets. The natural rate of unemployment therefore corresponds to the unemployment rate prevailing under a classical view of determination of activity.

: FRICTIONAL UNEMPLOYMENT

Frictional unemployment is the result of voluntary employment transitions within an economy. Frictional unemployment naturally occurs, even in a growing, stable economy. Workers choosing to leave their jobs in search of new ones and workers entering the workforce for the first time constitute frictional unemployment. It does not include workers who remain in their current job until finding a new one, as, obviously, they are never unemployed. Frictional unemployment is always present in the economy. It contributes to the overall employment picture and is part of natural unemployment, which is the minimum unemployment rate in an economy due to economic forces and movement of labor. Natural unemployment also reflects the number of workers who are involuntarily unemployed, whether due to a lack of skill or replacement by technology.

: STRUCTURAL UNEMPLOYMENT

Structural unemployment is a longer-lasting form of unemployment caused by fundamental shifts in an economy and exacerbated by extraneous factors such as technology, competition, and government policy. Structural unemployment occurs because workers lack the requisite job skills or live too far from regions where jobs are available and cannot move closer. Jobs are available, but there is a serious mismatch between what companies need and what workers can offer.

: CYCLICAL UNEMPLOYMENT

Cyclical unemployment is the component of overall unemployment that results directly from cycles of economic upturn and downturn. Unemployment typically rises during recessions and declines during economic expansions. Moderating cyclical unemployment during recessions is a major motivation behind the study of economics and the goal of the various policy tools that governments employ to stimulate the economy.

: MINIMUM AGE LAW

Minimum wage law is the body of law which prohibits employers from hiring employees or workers for less than a given hourly, daily or monthly minimum wage. More than 90% of all countries have some kind of minimum wage legislation. Until recently, minimum wage laws were usually very tightly focused. In the US and Great Britain, for example, they applied only to women and children. Only after the Great Depression did many industrialized economies extend them to the general work force. Even then, the laws were often specific to certain industries. In France

: Efficiency wage theory

The idea of the efficiency wage theory is that increasing wages can lead to increased Labour productivity because workers feel more motivated to work with higher pay. Therefore, if firms increase wages – some or all of the higher wage costs will be recouped through increased staff retention and higher Labour productivity. In theory, higher wages could cause increased Labour productivity (MRP). In this case, the wage increases can pay for themselves.

Q3: In the major cities in Pakistan, getting water supply by illegally using booster pumps attached to the city water line is not an uncommon practice. Consider two neighboring households A and B. If neither switch on the pump, each gets 10 units of supply. If both turn on the pump, each gets 7 units (implicit here is that the electricity cost of using the pump in terms of buying water is 3 units). But if one switches on while the other does not, the former gets 15 units and the latter gets 5 units. Construct the payoff matrix. Using Nash equilibrium, what does the game theory predict in terms of behavior towards switching on the booster pump?

ANSWER:

GAME THEORY:

when the water supply will Turn on their machinery first of all the Householders who have houses near to the Machinery fixed (Tube wells) will getting maximum UNITs of water.

Ruther then Householders who have houses far from the machinery..

For Example: -

Household A turn on booster for maximum units of water supply. It's illegal but through this process he will get urgent and max production of water

Household B: - if he turns on booster as well will not get the same number of units because of distance.

So, the main Game between the A and B is S.

As per Formula we know! S= v+t

So

House hold A is getting greater Units then

household B with same Booster pumping

Q4: Explain all the factors which can shift aggregate demand and aggregate supply?

ANSWER:

A shift in aggregate supply can be attributed to many variables, including changes in the size and quality of labor, technological innovations, an increase in wages, an increase in production costs, changes in producer taxes, and subsidies and changes in inflation. Aggregate supply and aggregate demand are the total supply and total demand in an economy at a particular period of time and a particular price threshold. Aggregate supply is an economy's gross domestic product the total amount a nation produces and sells. Aggregate demand is the total amount spent on domestic goods and services in an economy. Aggregate supply and aggregate demand convey how much firms are willing to produce and how much consumers are willing to demand at a specific price point. A few of the determinants are size of the labor force, input prices, technology, productivity, government regulations, business taxes and subsidies, and capital. As wages, energy, and raw material prices increase, aggregate supply decreases, all else constant.