Question: 53-How the consumer can get the optimal level of satisfaction?

Answer: A point where the indifference curve is tangent to the budget constraint is called optimal level of satisfaction. A consumer achieves his highest level of satisfaction by choosing the point on the budget constraint that is on the highest indifference curve.

Question: 55-What does near money mean?

Answer: Near money are highly liquid financial asset such as no checkable saving accounts, time deposits, and short term govt. securities. Although they do not directly function as a medium of exchange, they can be readily and without risk of financial loss converted into currency or checkable deposits.

Question: 11-What is the difference between exogenous and endogenous variables?

Answer: Endogenous Variables: The variables whose solution values are obtained through the model are called endogenous variables. Exogenous Variables: The variables whose values are determined by the forces outside the model are called endogenous variables.

Question: 17-What is classical dichotomy?

Answer: The theoretical separation of real and nominal variables in the classical model which implies nominal variables do not affect real variables.

Question: 24-What is meant by supply shocks & demand shocks?

Answer: : Demand Shocks: The exogenous changes in aggregate demand which temporarily shifts the aggregate demand curve from full employment level are called demand shocks. Supply Shocks: The exogenous changes in aggregate supply which temporarily shifts aggregate supply curve from full employment level are called supply shocks.

Question: 33-How does monetary policy slow or stimulate economic growth?

Answer: Monetary policy is conducted by the nation's central bank. Monetary policy consists of the manipulation of three tools: • required resources • discount rate • Open market operations. During demand pull inflation central bank will decrease money supply by the use of any one of its tool. The reduction in money supply will increase the interest rate causing the increase in savings and reduction in investment. During recession to stimulate economic growth central bank will increase money supply; causing the interest rate to fall which increase investment causing output and income to rise .

Question: 34-Differentiate between floating and fixed exchange rate? Which one is better?

Answer: Floating exchange rate: Exchange rate is allowed to fluctuate in response to changing economic conditions. Fixed exchange rate: The central bank trades domestic for foreign currency at a predetermined price. Floating or Fixed exchange rate?: Either a country should adopt fixed exchange rate system or floating exchange rate system depends on countries economic system and condition. With prudent domestic policies in place a floating exchange rate system will operate flawlessly. Fixed exchange system is most appropriate when a country needs to force itself to a more prudent monetary course.

Question: 35-Explain crowding out.

Answer: It happens when the government is borrowing heavily while businesses and individuals also would like to borrow. The government can always pay the market interest rate, but the private sector cannot, and is therefore crowded out. The state is in other words borrowing so much that the interest rates increases which in effect squeezes the private sector out of the credit markets. Crowding out can also come from state spending on areas that might be provided more efficiently by the private sector, such as health care, or even through charity and redistribution.

Question: 36-Can we reduce the trade deficit by restricting the imports?

Answer: By restricting the imports though the net exports remain same but there is less trade. And less trade mean the fewer gains from trade. Import restrictions on specific products save jobs in the domestic industries that produce those products, but destroy jobs in export producing sectors. Hence import restrictions fail to increase total employment, and worst of it is import restrictions create “sectoral shifts” which means frictional unemployment. Conclusion: Import restrictions can not reduce trade deficit.

Question: 37-What are the three models of aggregate supply?

Answer: The three models of aggregate supply are: 1- The sticky-wage model 2- The sticky price model 3- The imperfect-information model All three models imply that output positively depend on price level in the short run.

Question: 38-Define unemployment.

Answer: "A situation when people want to work but jobs are not availabel is called unemployment". and “A person who is able and willing to work and searching for work but could not find is called unemployed”

Question: 39-Explain adaptive expectations.

Answer: “An approach that assumes people form their expectations of future inflation based on recently observed inflation.”

Question: 40-What does the sacrifice ratio means?

Answer: “The sacrifice ratio measures the percentage of a year’s real GDP that must be foregone to reduce inflation by 1%.”

Question: 41-Explain natural rate hypothesis.

Answer: This view says that unemployment is stable in the long run at a particular natural rate. At the natural rate, cyclical unemployment is zero. In other words there is no long run tradeoff between inflation and unemployment.”

Question: 42-Differentiate between budget deficit and surplus.

Answer: Budget deficit: A budget deficit occurs when govt spendings are more than govt. revenues. Budget Surplus: A budget surplus occurs when govt spendings are less than govt. revenues.

Question: 43-What is meant by government debt?

Answer: An accumulated deficit over several years (or centuries) is referred to as the government debt.

Question: 44-Define business cycle.

Answer: “The periodic but irregular up and down movement in economic activity, measured by fluctuations in real GDP and other macro economic variables" Or The fluctuations occasionally grown very rapidly in a series of patterns called business cycle. There are five phases of the business cycle: • Expansion • Peak • recession • trough • recovery"

Question: 45-What is the traditional view of govt. debt?

Answer: According to the traditional view a tax cut stimulates consumer spending and reduces national saving. The reduction in saving raises the interest rate, which crowds out investment.

Question: 46-What is the Ricardian view of govt. debt?

Answer: The Ricardian view holds that debt financed tax cuts do not affect national saving, and therefore do not affect interest rates and investment.

Question: 47-Why do govt. budget deficit rises during recession?

Answer: The economy goes into recession, costing many workers their jobs, and at the same time causing corporate profits to decline. This causes less income tax revenue to flow to the government, along with less corporate income tax revenue. Occasionally the flow of income to the government will still grow, but at a slower rate than inflation, meaning that flow of tax revenue has fallen in real terms. Because of factor one, the government receives less money from taxpayers, while factors two and three, the government spends more money. Money starts flowing out of the government faster than it comes in, causing the government's budget to go into deficit.

48-Define consumption.

Answer: Consumption is that part of disposable income which is not saved.

Question: 49-Define average propensity to consume.

Answer: The average propensity to consume is the proportion of income that the average family spends on goods and services. As income increases the average propensity to consume falls.

Question: 50-Define marginal propensity to consume.

Answer: An economic term for the amount that consumption changes in response to an incremental change in disposable income. The marginal propensity to consume is between 0 and one.

Question: 51-What is meant by secular stagnation?

Answer: “Analysis of a protracted economic depression characterized by a falling population growth, low aggregate demand and a tendency to save rather then invest.” In simple words secular stagnation is a long depression of infinite duration, which can be controlled by the use of fiscal policy to stimulate aggregate demand.

Question: 52-What does an indifference curve shows?

Answer: “An indifference curve shows the combination of first-period and second-period consumption that makes the consumer equally happy.”

5-What is meant by an open economy?

Answer: An economy which can trade with the rest of the world is called open economy.

Question: 7-What does Okun’s law states?

Answer: Okun's Law: Okun's law states that a one percent decrease in unemployment is associated with two percentage points of additional growth in real GDP.

Question: 8-What is meant by MPL? How this concept is useful in real life?

Answer: MPL: "The extra output the firm can produce using an additional unit of labor is called marginal product of labor." or "MPL is defined as the change in output(Y) due to one unit change in labour(L)". MPL = ÄY/ÄL This concept is very useful in real life; as each firm hire labor up to the point where MPL = W/ P; which means marginal productivity of labor is equal to real wages

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Question: 9-What is meant by disposable income?

Answer: Disposable income is total income minus direct taxes.

Question: 10-What is meant by Seigniorage?

Answer: The revenue raised from printing money is called seigniorage

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Question: 54-Why an increase in interest rate discourage investments?

Answer: Here is a negative relation between investment and interest rate. An increase in interest rate motivates people to deposit their savings in banks to get high interest rate, and ultimately the investment will fall. While in case of lower interest rate when people have no chance of getting high interest rates on their savings they prefer investment.

Question: 1-What is the difference between micro and macro Economics.

Answer: Micro Economics: The study of economics in terms of individual areas of activity, such as the economics of a firm, a household, or of single economic components such as prices. Macro Economics: The study of the overall aspects and workings of a national economy, such as income, output, and the interrelationship among diverse economic sectors.

Question: 2-Why learn macro economics?

Answer: Macro economics considers the performance of the economy as a whole. Many macro economic issues appear in the press and on the evening news on a daily basis. When we study macro economics we are looking at topics such as economic growth; inflation; changes in employment and unemployment, our trade performance with other countries; the relative trade performance with other countries; the relative success or failure of govt. economic policies.

Question: 3-What is the difference between real and nominal GDP?

Answer: : Nominal GDP: The nominal GDP measures the value of all the goods and services produced expressed in current prices. Real GDP: Real GDP measure the value of all the goods and services produced expressed in prices of some base year.

Question: 4-What is the difference between flexible and sticky prices?

Answer: The variables which shows up and down are flexible variables Flexible prices: Flexible prices can vary .They can change over time. Sticky prices: Sticky prices remain constant, they can’t change over time.

Question: 12-What is meant by intrinsic value of money?

Answer: The value of material by which money is made is known as its intrinsic value. In the early stages of money some commodities were used as money, which have their own value to beside the exchange value. Its best example is gold coins.

Question: 13-Define liquidity?

Answer: "The ease of extracting any asset into cash is called the liquidity of that asset". Market liquidity is a business or economic term that refers to the ability to quickly buy or sell a particular item without causing a significant movement in the price. The term is usually shortened to liquidity. Money is most liquid asset.

Question: 14-What is meant by discount rate?

Answer: An interest rate at which central bank advances loans to commercial banks is called discount rate.

Question: 15-What is meant by unfair tax treatment?

Answer: Some taxes are not adjusted to account for inflation, such as the capital gains tax; these are called unfair tax treatment.

Question: 16-Why government create hyperinflation?

Answer: When govt. can not raise revenue from taxes or from selling bonds, it must finance its spending by printing money. This printing of new money creates hyperinflation.

Question: 18-Differentiate between nominal and real exchange rate?

Answer: Nominal exchange rate: The relative price of domestic currency in terms of foreign currency is called nominal exchange rate. Real exchange rate: The relative price of domestic goods in terms of foreign goods is called real exchange rate.

Question: 19-What is meant by purchasing power parity? Does it hold in real world?

Answer: “A doctorine that states that goods must sell at the same price in all countries” It does not hold in the real world.

Question: 20-What is meant by natural rate of unemployment?

Answer: The average rate of unemployment around which the economy fluctuates is called natural rate of unemployment.

Question: 21-Define structural unemployment?

Answer: The unemployment resulting from real wage rigidity and job rationing is called structural unemployment.

Question: 22-Explain steady state.

Answer: "The condition when all the variables are growing at the same constant rate is called the steady state condition". If investment is just enough to cover depreciation [sf(k) = sk] , then capital per worker will remain constant i.e. $\Delta k = 0$ This constant value, denoted k* is called steady state capital stock.

Question: 23-Define the Golden Rule level of capital.

Answer: The golden rule level of capital is the steady state value of capital that maximizes consumption.

Question: 25-What is meant by stabilization policy?

Answer: A policy action which aimed at reducing the severity of short run economic fluctuations is called stabilization policy.

Question: 26-Who presented Liquidity preference theory? And what does it states?

Answer: Jhon Mynard Keynes presented the liquidity preference theory. According to this theory “The assortment of expectations and types of uncertainty present at any given moment in the financial market affects the relationship between the quantity of money and interest rate.

Question: 27-Why the multiplier is greater then one?

Answer: The multiplier affect arises because of the induced increase in consumer spending which occurs due to the increased income and because of the back into increasing business revenues, jobs and income again.

Question: 28-What does the IS and LM curve shows?

Answer: IS curve: A graph of all combinations of interest rate and output that results in goods market equilibrium. LM curve: The LM curve is a graph of all combinations of interest rate and output that equate the supply and demand for real money supply balances.

Question: 29-What is the difference between actual and planned investment?

Answer: Planned investment: “Investment refers to purchase by firms of new buildings and equipment and addition of inventories, all of which add to firm’s capital stock” Actual investment: Actual investment is the actual amount of investment that takes place, it includes item such as unplanned changes in inventories.

Question: 30-Differentiate between actual and planned expenditure.

Answer: Planned expenditure: Planned aggregate expenditure is the total amount the economy plans to spend in a given period. It is equal to consumption plus planned investment. Actual expenditure: Actual expenditure is actual amount of expenditure that takes place.

Question: 31-How central bank raises the interest rate?

Answer: To increase interest rate central bank reduces money supply. Central bank can control money supply through open market operations or by change in reserve requirement by change in discount rate. And supply curve shifts towards left; demand for money remain same hence interest rate increases.

Question: 32-How does fiscal policy slow or stimulate economic growth?

Answer: Fiscal policy is the taxing and spending pattern of the govt. to regulate the economy. In case of recession govt. will increase it's spending or decreases the taxes. An introduction of tax cut will increase the consumer's disposable income. Consumer's purchasing power will increase and they will demand more consumer goods, to fulfill their demand producers will increase production. And to increase production they will hire more labor, which will generate more employment. And hence as an end result the total output and incomes will increase and economy reach at its full employment level.In case of demand pull inflation to slow economic growth govt. will either reduce its expenditures or increase tax rates.

Question: 6-What does GDP deflator reflects?

Answer: GDP deflator also called the implicit price deflator for GDP, measures the changes in the price of output relative to its price in the base year. It reflects what's happening to the overall level of prices in the economy GDP deflator = Nominal GDP /Real GDP