

BUSINESS ECONOMICS- MACRO

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1. C
2. A
3. C
4. D
5. D
6. D
7. C
8. A
9. C
10. B
11. D
12. A
13. B
14. C
15. C
16. D
17. A
18. C
19. C
20. A
21. C
22. D
23. C
24. B

25. A

26. B

27. B

28. C

29. C

30. D

31. B

32. B

33. A

34. C

35. D

36. B

37. D

38. A

39. Central banks utilise monetary policy to meet their inflation targets. If inflation is expected to be greater than the objective, they will use contractionary policy to raise interest rates and reduce aggregate demand, decreasing inflation. They utilise expansionary policy to cut interest rates and stimulate aggregate demand if expected inflation is lower than the aim..
Advantages of inflation targeting

- Inflation is at a lower rate. Inflation targeting can be a good way to control inflation, especially in nations where it has been high for a long time. Inflation that is more stable. This refers to lower inflation rate swings, which are more likely to occur when a target rate is pursued.
- Economic decision-makers (firms, consumers) will be better able to predict future inflation rates. Public awareness of the central bank's inflation goals decreases uncertainty and facilitates future economic decision-making (such as investment decisions).
- Monetary and fiscal policy should work together more closely. The government may design its fiscal policy to match the central bank's monetary policy by knowing the inflation targets.
- Greater central bank responsibility and openness. The central bank becomes more transparent about its operations and

accountable to both the government and the general public. It must give an explanation if it fails to bring inflation near to the target.

Disadvantages of inflation targeting

- The central bank's ability to pursue other macroeconomic goals is harmed. If the central bank's sole or primary goal is to keep inflation at a specific target rate, it will be unable to use monetary policy to achieve other objectives, such as full employment or exchange rate stability.
- The central bank's ability to respond to supply-side shocks is harmed. In the event of a supply-side shock, such as a sharp spike in oil prices, which leads to cost-push inflation and stagflation, the central bank may need to be flexible in order to pursue an expansionary policy to pull the economy out of recession, which could entail greater inflation than the target.
- The central bank's ability to deal with unanticipated occurrences, such as financial crises, is harmed. In addition, a financial crisis may necessitate an expansionary monetary policy, which could result in inflation exceeding the target.
- Establishing a reasonable inflation target. A target for inflation that is too high or too low can cause problems. If it is too low, it may result in more unemployment; if it is too high, it may result in inflationary difficulties.
- Difficulties in putting the plan into action. Forecasts of future inflation and economic activity are used prominently in inflation targeting, yet forecasts are frequently inaccurate.

40. 1. There are many factors affecting the demand for money. Some major factors and their long-term stable relationships are as follows:-

The dependent variable -Real money

According to monetary theory, demand for money means demand for real money balance. In the money stock, almost all data are measured in nominal terms. It is necessary to divide by a price index to measure real money. Also, it is generally accepted that a broadly based index.

The scale variables

The scale variables include the income or wealth variables. It always measures by the GDP and CPI. GDP stands for the gross domestic production. It is an important index to measure income generated by the United Kingdom

economy situation. The data of GDP is constant price which means it is real GDP.

The opportunity cost variables

The dissertation has five opportunity cost variables which are short and long interest rate, money growth rate, inflation rate and stock exchange index. For the short run interest rate I choose the three month Treasury bill. For the long run interest rate I choose the yield from British Government securities for ten years.

41. (i) An exchange rate index or the effective exchange rate is a weighted average of the exchange rate of a particular currency against all other currencies, where the weights are based on the proportion of transactions between each country.
- ii) This is because a less developed country depends on developed countries for the import of plant and machinery (and related technology) for its development programs. This causes a situation of adverse or negative balance of payments for the less developed countries. Accordingly, their forex reserves are low while the need for such reserves (to cope with rising imports) continues to be high. High exchange rate (or paying more and more for a dollar in the international market) is the obvious consequence.
42. 1. The direct effect of a rise in interest rates is to raise the cost of current government borrowing and so raise the fiscal deficit. In addition, it will raise the cost of financing the national debt to the extent that the debt has been financed by floating rate debt. The indirect effects of a rise in interest payments are also likely to widen the fiscal deficit initially since the interest rate rise will slow down the economy so increasing government expenditure on social security and dampening government tax revenues.
43. a. Money supply will be unaffected because the public's cash is withdrawn from banks and government spends it, so it is redeposited in the banking system. Hence, no overall change in the amount of cash held in the banking system.
- b. Increase because there will be more cash deposited in banks, rather than being held outside of the banking system, which they can use to create credit.
- ii) a. A fall in the national income leads to a decrease in the transactions demand for money. The demand for money curve will shift to the left.
- b. A decrease in the expected value of domestic currency will cause a decrease in the demand for the currency, i.e., the demand for money curve will shift to the left.

44. A

45. Exports = 385

Balance of trade in services = -20

Income payments (Investment Income) = -175

Net Income flows = -35

Current Account Balance = -95

Capital and financial account balance = 95

46. i) The labor market refers to the supply of and demand for labor, in which employees provide the supply and employers provide the demand.

The labor market should be viewed at both the macroeconomic and microeconomic levels.

Unemployment rates and labor productivity rates are two important macroeconomic gauges.

Individual wages and the number of hours worked are two important microeconomic gauges.

ii) The causes of unemployment can be divided into two major categories which is equilibrium and disequilibrium unemployment. There are five types of unemployment in equilibrium unemployment and three types in disequilibrium unemployment.

Equilibrium Unemployment is where can be caused because of people who are economically independent or the wages are too low for thus people don't feel the need to be employed.

It occurs during people leave their jobs like resign voluntarily, made redundant and also those temporarily unemployed while they are looking for a new job. Sometimes employers may be not offering their job to the first that applied, as they will search for other candidates. This unemployment takes place when both parties do not have the perfect knowledge as they move from one job to another. It is cause of immobility factor which is geographical and occupational immobility. Geographical immobility is where labour is unable to relocate to the job and occupational immobility is where labour unable to perform their job because of lack of knowledge, skill or even experience for example the unemployed will find a better offer without accepting the first offer.

Disequilibrium Unemployment is where usually due to the imposition of the minimum wage laws by the government which is means there will be higher demand for jobs then the supply.

Reason: - Takes part when the trade unions use their monopoly power to demand wage stage higher than the market stage or even when the government sets the national minimum wage stage higher than the market equilibrium. This can be also known as “disequilibrium” unemployment. The wages will be also falls down and could be caused by minimum wages, or the trade unions.

47. 1. The government might also strengthen supply-side strategies, such as increasing the local industry's long-term competitiveness by enhancing the quality of items produced and cutting production costs. This can be accomplished in terms of training quality and research and development.
2. The central bank's options in this regard would vary depending on whether the goal is to reduce short-term or long-term fluctuations in the exchange rate.
3. The government could buy or sell domestic currency in the foreign exchange market if it wants to keep the currency's value near to a long-term equilibrium value. The central bank's action will cause demand and supply curves to shift in the other direction, restoring the intended exchange rate.
4. To relieve the currency's downward pressure, the government might borrow foreign currency from other countries and international institutions such as the IMF. The loan could be used to purchase domestic currency on the international market. As a result, the demand and supply curves will revert to their original places, and the currency value will return to its previous level.
5. Another option is for the government to temporarily hike interest rates. This will encourage people from other countries to put their money in the home country. Raising the interest rate will raise demand for domestic currency while decreasing supply.
6. The government can utilise fiscal and monetary policies to keep the currency's monetary value stable for longer periods of time, such as months or years.
7. Aggregate demand can be reduced by contractionary fiscal and monetary policy. Raising taxes and cutting government spending would be part of a contractionary fiscal strategy. In order to limit borrowing and thereby aggregate demand, a contractionary monetary policy would involve hiking interest rates.
8. Lowering aggregate demand reduces spending on imported commodities, reducing currency supply in the foreign exchange market. Inflation would be reduced if aggregate demand was reduced. Exports will be cheaper and more appealing to consumers abroad as a result of decreased pricing in the domestic market, increasing their demand for domestic currency. There will also be less demand for high-priced imported items, resulting in decreased imports and a decrease in domestic currency supply. Both effects will boost the indigenous currency's value.

9. Frequent changes in currency value can have a negative impact on commerce and investment by causing uncertainty and reducing corporate confidence. As a result, the government wishes to avoid currency value volatility.

48. (i) 30m surplus

(ii) 10m deficit

iii) -40m

iv) No, the country's exchange rate is not fully flexible. This can be deduced from the "entry decrease in official reserves," which shows that the central bank has been buying domestic currency.