3.a) Define monetary policy and fiscal policy. Which one is more effective for a growing economy?

Monetary Policy: Monetary policy refers to the actions undertaken by a central bank, such as the Federal Reserve in the United States, to manage the money supply and interest rates to achieve macroeconomic goals such as controlling inflation, managing employment levels, and ensuring economic stability. The main tools of monetary policy include:

1. **Open Market Operations (OMOs):** Buying and selling government securities to influence the level of bank reserves and interest rates.
2. **Discount Rate:** The interest rate charged by central banks on loans to commercial banks.
3. **Reserve Requirements:** The minimum amount of reserves that banks must hold against deposits, which influences their ability to lend.
4. **Interest on Reserves:** Paying interest on excess reserves held by banks at the central bank.

Fiscal Policy: Fiscal policy involves the use of government spending and taxation policies to influence economic conditions. It is managed by the government (e.g., the Treasury Department) and aims to achieve economic objectives such as growth, full employment, and price stability. The main tools of fiscal policy include:

1. **Government Spending:** Direct expenditure on goods, services, and public projects.
2. **Taxation:** Adjusting tax rates and tax policies to influence consumer spending and investment.
3. **Transfer Payments:** Government payments to individuals, such as social security, unemployment benefits, and subsidies.

In a growing economy, monetary policy can be effective in controlling inflation and ensuring that the growth is sustainable. By adjusting interest rates, the central bank can influence borrowing, spending, and investment. If the economy grows too quickly and inflation becomes a concern, raising interest rates can help cool down the economy.

II Monetary Policy

Monetary policy is the process by which the ~~moner~~ monetary authority of a country like the central bank or currency board, controls the supply of money, often targetting an inflation rate or interest rate, to ensure price stability and general ~~trust~~ trust in the economy and currency.

III Fiscal Policy

Fiscal policy is the use of the government revenue collection (mainly taxes) and expenditure to influence the economy.

Fiscal policy deals with taxation and government spending and is often administered by an executive under laws of a legislature.

(5) Difference between Monetary & Fiscal Policy

Topic	Monetary	Fiscal
Defn	The tool used by the central bank to regulate the money supply in the economy is known as monetary policy.	The tool used by the government in which it uses taxes and expenditure policies to affect the economy is knows as Fiscal policy.
Administered by	Ministry of finance	Central bank
Related to	Banks and credit control	Government revenue and expenditure

Topic	Monetary	Fiscal
Nature of changing	The change in monetary policy depends on the economic status of the nation.	The fiscal policy changes every year.
Focusing on	Economic Stability	Economic Growth
Policy Instruments	Interest rates and credit rations	Tax rates and Government spending
Political Influence	No	Yes

Q. Explain the objectives of monetary policy in Bangladesh

As stated in the Bangladesh Bank order 1972, the principal objectives of country's monetary policy are -

1. To regulate currency and reserve
2. To manage the monetary and credit system
3. To preserve the value of domestic currency
4. To promote and maintain a high level of production employment and real income and economic growth.
5. To achieve the price stability.
6. To promote growth and development of the country's productive resources in the best

national interest.

The objective of monetary policy aims at growth, stability and social justice.

Rapid Economic Growth

To influence economic growth by controlling real interest rate and resultant impact on the investment

Price Stability

· To keep the value of money stable.

Exchange Rate Stability

Exchange rate is very volatile. Frequent ups and downs in the exchange rate might lose confidence of international community in our economy. The monetary policy aims at the relative stability in the exchang rate.

Balance of Payment Equilibrium

The Bangladesh Bank through its monetary ~~policy~~ policy tries to maintain equilibrium between 'BOP surplus' and 'BOP deficit'

Full employment

"Full employment" stands for situation where who wants job gets job. Monetary Policy of Bangladesh tries to achieve full employment.

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Neutrality of Money

To regulate the supply of money and ~~neutri~~ neutralize the effect of money inflation.

3.b) Briefly explains the objectives of Trade Policy in Bangladesh. How does trade policy work positively?

The trade policy in Bangladesh is designed to foster economic growth, enhance competitiveness, and integrate the country more effectively into the global economy. The key objectives of Bangladesh's trade policy include:

1. **Promoting Export Growth:**
   - Expand the export base by diversifying products and markets.
   - Enhance the competitiveness of export-oriented industries.
2. **Facilitating Import Substitution:**
   - Support domestic industries to reduce dependency on imports.
   - Encourage the production of goods that can replace imports with local products.
3. **Attracting Foreign Direct Investment (FDI):**
   - Create a favorable business environment to attract foreign investment.
   - Facilitate technology transfer and skill development through FDI.
4. **Enhancing Competitiveness:**
   - Improve infrastructure and reduce trade costs.
   - Simplify and streamline customs procedures and trade regulations.
5. **Boosting Employment:**
   - Generate employment opportunities through expanded trade activities.
   - Develop sectors like textiles and garments that are labor-intensive.
6. **Economic Diversification:**
   - Encourage diversification of the economic base to reduce reliance on a few sectors.
   - Promote sectors such as IT, pharmaceuticals, and agro-processing.
7. **Regional and Global Integration:**
   - Strengthen trade relations with regional and global partners.
   - Participate in regional trade agreements and global trade organizations.

How Trade Policy Works Positively

1. **Increased Export Revenue:** By promoting exports, trade policy can lead to an increase in foreign exchange earnings, which is vital for the country's balance of payments and economic stability.
2. **Economic Growth:** Trade policy that focuses on opening markets and reducing barriers can stimulate economic growth by increasing access to larger markets and enhancing productivity.
3. **Employment Generation:** Expanded trade activities often lead to job creation in export-oriented industries, such as textiles and garments, which are significant employers in Bangladesh.
4. **Technology Transfer and Skill Development:** FDI attracted through positive trade policies can bring in new technologies and management practices, improving productivity and skill levels in the local workforce.
5. **Diversification of the Economy:** Trade policies that encourage the development of new sectors can help diversify the economy, making it more resilient to shocks in any single industry.
6. **Improved Infrastructure:** Trade policies often focus on improving infrastructure, such as ports, roads, and logistics, which can lower the cost of trade and increase the efficiency of the supply chain.
7. **Enhanced Competitiveness:** By reducing trade barriers and improving the business environment, trade policy can make Bangladeshi products more competitive in the global market, boosting exports.