Short Questions:

1) National Income:

Aggregate of all goods and services produced in an economy on market prices during the period of one year after substracting depreciation allowances and inderect taxes is called national income. National income = N.N.P. – Indirect Taxes.

2) Macroeconomics:

It is a branch of economics in which aggregates of an economy are discussed. e.g. national income, investment, economic planning etc.

3) Concepts of National Income:

Following are the concepts of national income:

i- Gross National Product
ii- Net National Product.
iii- National Income
iv- Gross Domestic Product
v- Personal Income
vi- Disposable Personal Income

4) Gross National Product:

Aggregate of all goods and services on market prices during period of one year is called gross national product. It also includes the income of foreign sector.

5) Net National Product:

Aggregate of all goods and services on market prices during period of one year after subtracting depreciation allowances, is called net national product.

$$N.N.P. = G.N.P. - D.A.$$

6) Gross Domestic Product:

Aggregate of all goods and services on market prices during period of one year by utilizing domestic/internal resources only is called gross domestic product.

7) Per Capita Income:

It is calculated by dividing total national income over total population.

$$P.C.I = \frac{\text{National Income}}{\text{Population}}$$

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8) Depreciation Allowances:

The expenditures made on wear and tear of machinary and equipment during period of one year is called depreciation allowances.

9) Disposable Personal Income:

The income in the possession of a man after the payment of direct taxes is called disposable personal income.

Disposable Personal Income = Personal Income − Direct Taxes

10) Methods to measure National Income:

Three methods to measure national income:

i- Product Method or Output Method

ii- Income Method

iii- Expenditure Method

11) Circular Flow of National Income:

In capitalistic system, economy is divided into two sectors: Households and Firms. Households provide their services to firms to produce goods and services that are subsequently provide to households. This circle continues. Firms pay wages to factor services as rewards that are further utilized to purchase goods and services from firms.

12) Types of Resources:

There are three types of resources:

i- Natural Resources.

ii- Man-made/Artificial Resources.

iii- Human Resources.

13) Equilibrium of National Income:

There are two methods to determine equilibrium of national income:

i- Agg Demand = Agg Supply ⇒ AD = AS

ii- Saving = Investment ⇒ S = I

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14) Inflation:

When prices tend to rise more rapidly than the production of goods and services, it is called inflation. OR "A typical situation of an economy when too much chases too few things."

15) Causes of Inflation:

i- Increase in quantity of money.
ii- Increase in demand for goods
iii- Increase in crost of production.
iv- Development expenditure.
v- Rapid Increase in Population

16) Measures to control Inflation:

i- Increase in Bank Rate
ii- Open Market Operation
iii- Reduction in Govt. Expenditure
iv- Increase in Taxes
v- Population Control
vi- Price Control Policy.

17) Deflation:

A situation in which quantity of money is less than the quantity of goods and services.

⇒ [Causes and Measures are the same as inflation but on opposite side.]

18) Unemployment:

It means such situation of economy when manpower is available for work but there is no opportunity to work. It is called unemployment. It can be frictional, seasonal, cyclical and disguised unemployment.

19) Disguised Unemployment:

It is a type of unemployment in which people are busy in working but they are facing unemployment in the sense that there will be no decrease in production of relevant sector if they are shifted to other sector of economy. It is about 20% to 25% in agriculture sector of Pakistan.

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20) Consumption Function:

A mutual relationship between consumption and income is called consumption function. It is an increasing function.

$C = f(Y)$ Consumption increases with increase in income and vice verca.

21) Saving Function:

A mutual relationship between saving and income is known as saving function. It is an increasing function.

$S = f(Y)$

saving increases as income increases and vice verca.

22) Average Propensity to Increase: (APC)

The ratio between consumption and income is called average propensity to consume. If income is 500 and consumption is 200, then A.P.C. is

$APC = \frac{C}{Y} = \frac{200}{500} = 0.4$

A.P.C. is always less than 1 and greater than zero.

$0 < APC < 1$

23) Average Propensity to Save: (APS)

The ratio between saving and income is called average propensity to save. If income is 500 and saving is 300, then APS is:

$APS = \frac{S}{Y} = \frac{300}{500} = 0.6$

APS is also always less than one and greater than zero.

$0 < APS < 1$

24) Marginal Propensity to Consume: (MPC)

The ratio between change in consumption (ΔC) to change in income (ΔY) is called marginal propensity to consume.

$MPC = \frac{\Delta C}{\Delta Y} \Rightarrow 0 < MPC < 1$

25) Marginal Propensity to Save: (MPS)

The ratio between change in saving (ΔS) to change in income (ΔY) is called marginal propensity to save.

$MPS = \frac{\Delta S}{\Delta Y} \Rightarrow 0 < MPS < 1$

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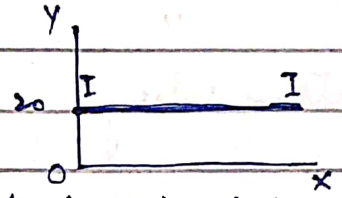
26) **Investment:**

It means to increase real assets of capital. For example: construction of a new building, a new power station or a road, dam, etc.

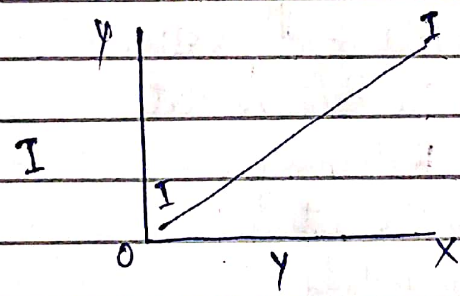
27) **Autonomous Investment:**

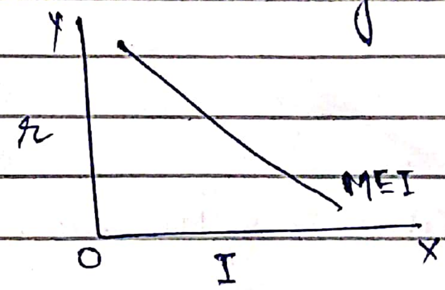
It is such type of investment that is not related to any demand. It is normally from govt. sector. Private sector never starts this investment because the demand of product is zero. It requires a fixed amount that is allocated by govt. in its annual budget.



28) **Induced Investment:**

This type of investment is induced by income or rate of interest. It varies with level of income and interest rate. Investment and income has positive relationship while investment and interest rate has negative relationship.

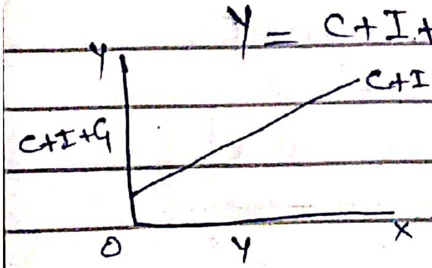




29) **Aggregate Demand: (AD)**

Aggregate of all types of expenditure in an economy at a specific time is called aggregate demand. e.g. in three sector economy:

$Y = C + I + G$ ⟹ C = Consumption expenditure
I = Investment "
G = Govt. Expenditure



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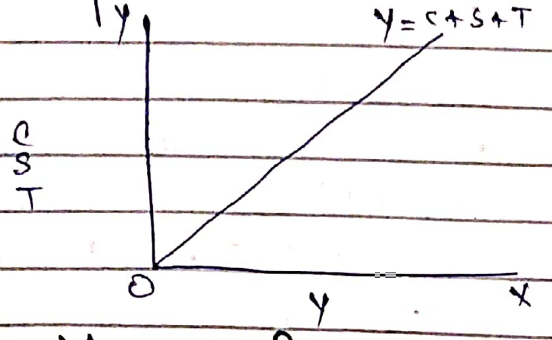
30) Aggregate Supply: (AS)

Aggregate of production in an economy at a specific time is called agg. supply as all types of expenditures are used to produce goods and services.



$Y = C + S + T \Rightarrow$

C = Consumption

S = Saving.

T = Taxes.

31) Monetary Policy:

All measures taken by central bank of a country to regulate quantity of money / money supply is called monetary policy.

32) Tools of Monetary Policy:

A) Quantitative Tools / Measures: Bank Rate Policy.
Open Market Operation
Change in Reserve Ratio
Credit Rationing

B) Qualitative Tools / Measures: Moral Persuation
Direct Action
Publicity
Change in Marginal Requirement
Regulation of Consumer's Credit

33) Fiscal Policy:

All revenue generating and expenditure making activities of central govt. is called fixcal policy. In other words: federal budget is the another name of fiscal policy.

34) Public Finance:

It is that branch of economics which studies revenue and expenditures of govt. institutions, their relationship and financial administration.

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35) Components of Public Finance:

i- Public Revenue
ii- Public Expenditure
iii- Public Debt.

46) Canons / Principles of Taxation:

i- Canon of Equality
ii- Canon of Certainty
iii- Canon of Economy
iv- Canon of Convenience.
v- Canon of Simplicity
vi- Canon of Productivity.

47) Sources of Public Revenue:

i- Taxes
ii- Fee
iii- Price
iv- Fines
v- Govt. Property
vi- Local Rate

48) Heads of Public Expenditure:

i- Istalment and Interest on Loans
ii- Defence
iii- Police
iv- Civil Administration
v- Courts
vi- Public Health / Education.

49) Balance of Payments: (BOP)

It is a systematic record of all economic transactions (visible & invisible) between reporting country with the rest of the world over a specified period of time.

50) Balance of Trade: (BOT)

It is a norrow concept as compared to balance of payments. It is a systematic ~~rag~~ record of all economic transactions of visible items only i.e. (exports and imports).

51) Items of BOP:

i- Services of Banks, Insurance Companies & Shipping Companies.
ii- Tourism
iii- Study abroad
iv- Medical Treatment
v- Foreign Aid

52) Causes of Unfavourable BOP:

i- Increase in imports
ii- Decrease in Exports
iii- Inflation
iv- Technology Progress
v- Unfavourable TOT
vi- Foreign Loans.

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53) Measures to correct BOP:

i- Improve in BOT
ii- Decrease in Quantity of Money.
iii- Foreign Exchange Control
iv- Population Control
v- Devaluation
vi- Import substitute industry.

54) Direct Tax:

It is a tax which is imposed on the person and it is payable by the same person. This tax is not transferable to other persons. e.g. income tax, property tax and wealth tax.

55) Indirect Tax:

It is a tax which is imposed on one person but may be shifted to other persons. So, the final burden of the tax on consumers because these taxes are included in the price of products. e.g. sales tax, custom duty and central excise duty.

56) Multiplier:

It shows a relationship between initial increase in investment and the resulting increase in national income. Thus, it explains the relationship between increase in investment and the resulting increase in income. It can be calculated as:

$$K = \frac{1}{1-MPC} \quad \text{or} \quad K = \frac{1}{MPS}$$

57) Accelerator Principle:

It shows an economic concept that represents a connection between change in consumption patterns and corresponding increase in capital investment.

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