

تمام کلاسز کی حل شدہ مشقیں MrPakistani ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Allama Iqbal Open University Solved Assignments Spring 2026

Course Code:	1414 Code
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Total Assignments	2

گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

نوٹ: ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



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Forms of Money

Money exists in various forms in a modern economy:

- **Commodity Money:** Made of valuable commodities
- **Metallic Money:** Coins made of precious metals
- **Paper Money:** Currency notes issued by central banks
- **Credit Money:** Bank instruments like cheques
- **Electronic Money:** Digital forms of money including cards and online banking

Functions of Money

Primary Functions:

1. **Medium of Exchange:** Money is used as a medium for the sale and purchase of different products. This is the most important function of money. People sell their products for money and use that money to purchase different products to fulfill their needs.
2. **Measure of Value:** Money works as a common denomination; the value of all goods and services is expressed in terms of money. Just as we measure weight in kilograms or distance in kilometers, we measure value in terms of money.
3. **Standard of Deferred Payments:** Money serves as a standard for payments made after a lapse of time to settle debts and make investments.
4. **Store of Value:** Money is the most liquid asset among all assets, making it easier to store value in the form of money.

Secondary Functions:

1. **Instrument for Lending:** People save money and deposit it in banks. Banks advance these savings as loans to businessmen and earn profit by charging interest.
2. **Instrument of Economic Policy:** Money is a powerful factor for achieving growth, reducing unemployment, and maintaining expansion of economic activity.
3. **Tool for Monetary Management:** Money helps in increasing output and employment and helps in determining the distribution of wealth among members of society.
4. **Aid to Production and Trade:** Money solves barter difficulties, helps in the production of goods and services, and facilitates expansion of trade.



Q.2 Discuss in detail the factors affecting the value of foreign exchange in a country.

Foreign Exchange Rate Defined

Foreign exchange rate (also known as FX rate or forex rate) is a ratio between the values of two country currencies. Exchange rate tells the value of domestic currency in terms of foreign currency. Exchange rate is the price at which the currency of a country can be exchanged for the currency of another country. The foreign exchange situation of a country indicates its financial position.

Theories of Exchange Rate Determination

1. The Purchasing Power Parity Theory (PPP): This theory was developed by Swedish Economist Gustav Cassel in 1918. The purchasing power parity theory states that exchange rates of two currencies are in equilibrium when the purchasing power is the same in each of the two countries. The price level and changes in price level determine the exchange rate of those countries' currencies. The purchasing power parity theory is based on the law of one price. The basic principle is that the exchange rate between different countries expresses the purchasing power of those countries. When the price level changes, the exchange rate also changes.

2. The Balance of Payment Theory: This theory is also known as the general equilibrium theory of exchange rate. According to this theory, the exchange rate of a currency depends upon the demand and supply of that currency in a region or country. The demand for foreign currency arises from the debit side of the balance of payment, equaling payments made to foreign countries for the purchase of goods and services. The supply of foreign currency arises from the credit side of the balance of payment, equaling payments made by foreign countries against the sale of goods and services.

The exchange rate is determined by the demand and supply of foreign exchange. If the exchange rate falls below the equilibrium point, the balance of payment is unfavorable. When the exchange rate rises above the equilibrium point, the balance of payment is favorable.

Other Factors that Influence the Exchange Rate

1. Inflation Rate: Inflation affects the value of a currency in an economy, thereby affecting the determination of exchange rates. When inflation rises, the value of currency typically decreases.



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2. Interest Rate: Interest rates have an impact on the level of investments in an economy and explain the level of investments in an economy. Higher interest rates attract foreign investment, increasing demand for the local currency.

3. Political Stability: Political stability affects the inflows and outflows of investments in an economy. Countries with stable political environments attract more foreign investment, strengthening their currency.

4. Recession: Recession negatively affects the value of a currency as industrial production and demand decline, leading to reduced demand for the currency.

5. Industrial Position: The structure and performance of the industrial sector affects the rate of exchange as investments are made or withdrawn based on economic performance. A strong industrial base attracts foreign investment and supports currency value.

Types of Foreign Exchange Rate Systems

1. Fixed Exchange Rate System (Pegged Exchange Rate): The exchange rate for currency is fixed by the government of a country to maintain stability in foreign trade. The value of domestic currency is tied to the value of gold.

2. Floating Exchange Rate System: The exchange rate is determined by the forces of demand and supply of different currencies in the foreign market. The value of national currency is allowed to move freely with respect to the demand and supply of other currencies.

3. Managed Floating System: The exchange rate is determined by market forces (demand and supply) along with interventions of the government or central bank. The government and central bank intervene in the foreign exchange market to restrict fluctuations within certain limits.

Q.3 How does inflation affect the value of money in an economy? Describe in detail the concept and types of inflation, along with remedies to reduce it.

Effect of Inflation on the Value of Money



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Inflation is an increase in the general price level of goods and services in an economy over a period. When inflation occurs, the value of money decreases because the purchasing power of currency declines. As prices rise, each unit of currency buys fewer goods and services. This inverse relationship means that when inflation increases, the value of money falls, and when inflation decreases, the value of money rises. Inflation arises when money income expands more than proportionately to income-earning activity.

Types of Inflation

A. Inflation Based on Causes:

1. Demand Pull Inflation: This arises when the demand for goods and services increases while the supply of goods and services decreases, causing the general price level to rise. Causes include:

- Increase in money supply
- Increase in demand for goods and services
- Increase in income level

2. Cost Push Inflation: This arises when the cost of production and operations increases. Causes include:

- Increase in wages
- Increase in cost of raw materials
- Increase in cost of important components

B. Inflation Based on Employment:

1. Partial Inflation (J.M. Keynes): The general price level increases partly due to an increase in the cost of production of goods and partly due to a rise in the supply of money before the full employment stage.

2. Full Inflation: This arises when the economy has reached the level of full employment. An increase in money supply causes the general price level to increase without any increase in production and employment.

C. Inflation Based on Degree of Control:

1. Open Inflation: The general price level rises day by day and gets out of control for the government.

2. Suppressed Inflation: The government takes steps and measures to control the rise in the general price level through different methods like rationing.



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- Control of smuggling as it reduces supply of goods in the country
- Provision of subsidies to needy sections of society
- Population control to reduce aggregate demand
- Encouraging simple living to reduce demand for expensive items
- Direct control on prices of essential items by the government
- Encouraging Sunday and Friday markets to offer discounts

Q.4 What are the financial markets? Discuss the types and structure of the financial assets.

Financial Markets Defined

The financial market is a mechanism to trade financial assets among buyers and sellers at a mutually agreed price. In capitalism, markets offer a mechanism to trade goods and services among buyers and sellers at an agreed price. There are many types of markets in an economy including fruits markets, cloth markets, commodity markets, and auto markets. The financial market is a kind of market that coordinates the activities of all other markets. The working of financial markets is carried on by financial institutions to facilitate buyers and sellers of financial assets.

Types of Financial Assets

Financial assets are documentary claims that have monetary value. Different types of financial assets traded in financial markets include:

- 1. Shares:** Certificates usually bought on a stock exchange that represent the claim of ownership in a company. Shareholders are entitled to claim profit called dividend and can sell their shares at any time to earn capital gain.
- 2. Bonds:** Certificates through which investors provide funds to businesses at an interest rate for a specific period. Bonds are issued by companies as an alternative to shares if they are not willing to share ownership of their business.
- 3. Investment Certificates:** Term-specific investment tools that offer periodic return to their holders and are generally issued by financial institutions to finance specific projects.



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4. Commercial Papers: Short-term investment instruments redeemable at maturity, purchased by buyers to provide funds to businesses at an interest rate.

5. Prize Bonds: Financial assets of fixed value that offer a chance to win a prize in a lottery. These bonds are redeemable at their original value in case of not winning a prize.

6. Futures: Financial assets that derive their value from an underlying asset whose price is agreed in the present and settlement is made in the future.

7. Treasury Bills: Investment tools offered by the government for short-term financing requirements that carry an interest rate and are redeemable on maturity.

8. Trade Notes: Short-term outstanding amounts payable to creditors by a business. These notes can be discounted by creditors through banks before maturity or used for mutual settlement with another party.

9. E-Certificates: Offered by modern online forms of businesses for investing funds in their projects, carrying explicit interest rate or ownership share claim.

10. Units: Investment tools offered by mutual funds or other investment schemes that carry rights for unit holders to participate in profits and gains.

11. Cheque: A modern banking tool used to settle outstanding liabilities through bank accounts.

Classification of Financial Markets

i. Classification by Nature of Claim:

- **Debt Market:** Market where debt instruments like bonds, debentures, and term finance certificates are traded
- **Equity Market:** Market where equity instruments like common shares and preferred shares are traded

ii. Classification by Maturity of Claim:

- **Money Market:** Market for trading short-term financial assets like trade notes, commercial papers, and treasury bills
- **Capital Market:** Market where long-term maturity bearing financial assets like shares, bonds, and certificates are traded

iii. Classification by Seasoning of Claim:

- **Primary Market:** Market where a financial asset is offered for the first time for trading



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- **Secondary Market:** Market where trading of financial assets is carried on after their launch in the primary market

iv. Classification by Delivery:

- **Cash or Spot Market:** Financial assets are traded on the spot without involving any reference to future price or delivery
- **Derivative Market:** Market involving trading of financial assets whose delivery is expected in the future

v. Classification by Product Type:

- **Commodity Market:** Type of financial market where future contracts for metals, oil, gas, and crops are bought and sold
- **Forex Market:** Financial market involving trading of different currencies of the world to earn profit
- **Equity Market:** Market where shares are bought and sold to earn capital gains and dividends

Difference Between Money Market and Capital Market

Feature	Money Market	Capital Market
Definition	Used for short-term borrowings	Used for long-term borrowing
Time period	One year or less than one year	More than one year
Instruments	Commercial papers, repurchase agreements, certificates of deposit, treasury bills	Stocks, shares, debentures, bonds, government securities
Institutions	Central bank, commercial banks, national financial institutions	Stock exchanges, commercial banks, insurance companies
Risk	Very small risk factor due to short time period	Higher risk compared to money market
Merit	Increases liquidity of funds in the economy	Mobilization of savings in the economy
Purpose	To fulfill short-term credit needs of business	To fulfill long-term credit needs of business
Return on investment	Less compared to capital market	Comparatively high



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Q.5 Write a note on the following:

(i) World Bank (International Bank for Reconstruction and Development - IBRD)

The International Bank for Reconstruction and Development (IBRD), also known as the World Bank, was established in 1944 and became operational in 1946 as the original institution of the World Bank Group. The IBRD headquarters is located in Washington DC, USA, with approximately 15,000 staff from member countries.

Structure: The structure of IBRD is like a cooperative society operated for the benefit of 188 member countries. All powers of the bank are vested in its board of governors, which meets annually in annual board meetings. The board of governors delegates most of its authorities to the executive directors and the bank president elected by the executive directors.

Objectives of IBRD:

- To assist member countries
- To promote foreign investment
- To promote balanced growth of international trade
- To provide loans to reduce poverty

Membership: All IMF members are also members of IBRD. A country wanting to hold its membership must subscribe to the charter of the bank. If any country wants to resign its membership, it must pay back all loans with interest to IBRD.

IBRD Fund Sources:

- Member countries contribute according to their quota in IMF
- Funds raised through selling bonds in the international capital market
- Loan amounts received back with interest from member countries

IBRD Role in Pakistan: IBRD has helped Pakistan many times by providing loans and technical assistance for:

- Poverty reduction
- Social development
- Infrastructural development
- Capacity development of government institutions



(ii) Asian Development Bank (ADB)

The Asian Development Bank (ADB) is a regional development bank established on December 19, 1966, with an authorized capital of 58 billion dollars, headquartered in Manila, Philippines. The basic purpose of ADB is to promote social and economic development.

Membership: At the time of establishment, there were 31 members. ADB now has 67 members, of which 48 are from within Asia and the Pacific and 19 from outside. The voting system is distributed in proportion to members' capital subscription. At the end of 2014, Japan held the maximum proportion of share at 15.7%.

Structure: The bank has a board of governors, a board of directors, a president, and a vice president.

Sources of Finance:

- Funds raised through bond issues in world capital markets
- Members' contribution as subscription fee
- Funds raised through lending operations and repayment of loans

Functions of ADB:

- Promotes investment in the region of public and private capital for development process
- Provides loans for economic and social development of member countries of the region
- Helps member countries in coordinating their development policies and plans
- Provides technical assistance for preparation, financing, and execution of development projects and programs
- Provides financial and technical assistance to member countries for environmental protection
- Supports public resources mobilization and management in member countries
- Acts as a financial intermediary by transferring resources from global capital markets to developing countries
- Cooperates with the United Nations for investment and assistance

ADB and Pakistan: ADB remains one of the largest development partners and has provided more than 23 billion dollars in loans and over 531 million dollars in grants. ADB has helped Pakistan many times and has provided technical and financial assistance in the following sectors:

- Educational sector development
- Energy and health sector development and capacity development
- Industry and trade development
- Information and communication technology
- Public sector financial and technical management



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- Social protection and poverty alleviation
- Transport and water infrastructure development
- Agriculture sector development
- Development of capital markets



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