

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

Allama Iqbal Open University Solved Assignments Spring 2026

Course Code:	402 Code
Course Name:	Economics (اکنامکس)
Class:	BA/AD/BS
Total Credit Hours	6
Total Assignments	4

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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Assignment 3

Q.1 Define national income. Explain the expenditure method of measuring national income.

Answer:

Definition of National Income

National income is the **total monetary value of all final goods and services produced by a country's residents** during a given period (usually one year). It can be measured at factor cost or market prices.

Common concepts:

- **GDP** (Gross Domestic Product) – production within geographical boundary.
- **GNP** (Gross National Product) – production by nationals, regardless of location.
- **NNP** (Net National Product) = GNP – Depreciation.
- **National Income (NI)** = NNP – Indirect taxes + Subsidies (or NNP at factor cost).

Expenditure Method of Measuring National Income

This method sums up all **final expenditures** made in the economy. It is based on the identity:

$$GDP = C + I + G + (X - M)$$

Where:

- **C** = Consumption expenditure (households on durable & non-durable goods, services)
- **I** = Investment expenditure (business fixed investment, residential construction, change in inventories)
- **G** = Government expenditure (on goods and services, excluding transfer payments)
- **X** = Exports of goods and services
- **M** = Imports of goods and services ($X - M$ = net exports)



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Steps in expenditure method:

1. **Identify institutional sectors:** households, firms, government, foreign sector.
2. **Collect data** on all final expenditures. Avoid double counting (only final goods, not intermediate).
3. **Sum consumption (C)** – from household surveys, retail sales.
4. **Sum investment (I)** – gross fixed capital formation + inventory changes. Data from business surveys.
5. **Sum government spending (G)** – from government budgets (defence, education, infrastructure).
6. **Add net exports (X – M)** – from trade statistics.
7. **Sum to get GDP at market prices.**
8. **Adjust to get national income (NI = GDP at market prices – depreciation – indirect taxes + subsidies).**

Precautions:

- Only final goods (to avoid double counting).
- Exclude second-hand sales (only current production).
- Exclude purely financial transactions (stock, bonds, transfer payments).
- Include imputed values (owner-occupied rent).

Advantages:

- Useful for analysing demand components (C, I, G, NX).
- Data often available (national accounts, surveys).

Example (simple numbers):

$C = 500, I = 150, G = 200, X = 100, M = 80 \rightarrow GDP = 500+150+200+20 = ₹870$ crores.

If depreciation = 50, indirect taxes = 40, subsidies = 10 $\rightarrow NI = 870 - 50 - 40 + 10 = ₹790$ crores.

**Q.2 What is meant by the equilibrium level of national income?
Explain the concept of average and marginal propensity to**



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consume with the help of a hypothetical consumption table. Also discuss the factors which determine the consumption behaviour.

Answer:

Equilibrium Level of National Income

In Keynesian economics, equilibrium national income occurs when **planned (desired) aggregate expenditure equals actual output**. That is:

$$Y = C + I + G + (X - M)$$

In a simple two-sector model (households + firms, no government, no foreign trade):

$$Y = C + I$$

Equilibrium can be reached via adjustment of output (inventories). If $Y < C + I$, firms see falling inventories → increase output → Y rises. If $Y > C + I$, inventories rise → cut output → Y falls.

Diagram: 45° line ($Y = AE$) and AE curve ($C+I$). Equilibrium at intersection.

Average and Marginal Propensity to Consume

- **Average Propensity to Consume (APC)** = $\frac{C}{Y}$ (fraction of income spent on consumption).
- **Marginal Propensity to Consume (MPC)** = $\frac{\Delta C}{\Delta Y}$ (change in consumption due to change in income). $0 < MPC < 1$.

Hypothetical consumption table:

Assume consumption function $C = 50 + 0.8Y$ (autonomous consumption = 50, MPC = 0.8).

Income (Y)	Consumption (C)	APC = C/Y	MPC ($\Delta C/\Delta Y$)
0	50	–	–
100	130	1.30	0.80



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Q.4 Define bank. Also, discuss in detail the different functions of a central bank.

Answer:

Definition of Bank

A bank is a financial institution which:

- Accepts deposits from the public,
- Lends money to borrowers,
- Provides payment and other financial services.

Types: Commercial banks, central bank, development banks, co-operative banks.

Functions of a Central Bank

The central bank (RBI in India, Federal Reserve in US) is the apex monetary authority. Its functions are classified into **traditional** and **developmental**.

A. Traditional (Primary) Functions

1. Monopoly of Note Issue

- Sole authority to issue currency notes (except coins, minted by government).
- Ensures uniformity, public confidence, and elastic currency.

2. Banker to the Government

- Maintains accounts of central and state governments.
- Makes payments, collects taxes, manages public debt.
- Advises government on financial and economic policies.

3. Banker's Bank (Lender of Last Resort)

- Holds a portion of commercial banks' reserves (CRR, SLR).
- Provides emergency loans to solvent banks facing liquidity crisis.
- Acts as a clearinghouse for inter-bank settlements.



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4. Controller of Credit (Monetary Policy)

Uses **quantitative** and **qualitative** tools to regulate money supply and credit:

Quantitative methods	Qualitative methods
Bank Rate / Repo Rate	Margin requirements
Cash Reserve Ratio (CRR)	Moral suasion
Statutory Liquidity Ratio (SLR)	Selective credit controls
Open Market Operations (OMO)	Direct action
Reverse Repo Rate	

Monetary policy objectives: Price stability, economic growth, exchange rate stability.

5. Custodian and Manager of Foreign Exchange

- Maintains foreign exchange reserves.
- Administers exchange control regulations.
- Determines exchange rate policy (managed float, etc.).

B. Developmental and Promotional Functions (in developing countries)

- **Financial inclusion** – promoting banking in rural areas.
- **Development of financial institutions** (NABARD, SIDBI).
- **Agricultural credit** – refinance to rural banks.
- **Export promotion** – special credit facilities.
- **Collection and publication** of economic data.

C. Supervisory Functions

- **Licensing** of banks.
- **Inspection** of banks (on-site, off-site).
- **Enforcing** capital adequacy norms (Basel standards).
- **Protecting depositors** through Deposit Insurance (up to ₹5 lakh in India).

Conclusion: The central bank is the “bank of issue, bank of bankers, and bank of the state.” Its functions have evolved from pure note issue to active management of the entire financial system.



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6. **Source of foreign exchange** – exports bring in hard currency.
7. **Employment generation** – export industries create jobs.
8. **Peace and cooperation** – trade interdependence reduces likelihood of war.

Demerits of International Trade (Disadvantages)

1. **Over-specialisation** – may lead to structural unemployment if demand shifts.
2. **Dependence on foreign countries** – critical goods (food, defence) may be compromised.
3. **Harms infant industries** – unable to compete with established foreign firms.
4. **Unequal distribution of gains** – rich countries benefit more; poor may be exploited.
5. **Cultural erosion** – foreign goods, media displace local traditions.
6. **Environmental damage** – transport emissions, resource depletion.
7. **Business cycles transmitted** – a recession in one country spreads via trade.
8. **Dumping** – foreign firms may sell below cost to destroy local competition.

Conclusion: Despite demerits, international trade has been a powerful engine of growth for most countries. The key is to manage trade through appropriate policies (tariffs for infant industries, diversification, strategic reserves) while reaping the benefits of comparative advantage.



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